THE RAFAKO GROUP

THE PBG GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS with the independent auditor’s review report

for the 6-month period ended 30 June 2016

31 August 2016

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1. Interim condensed separate financial statements of RAFAKO S.A. for the 6-month period ended 30 June 2016

(in PLN thousand)

Interim condensed consolidated statement of comprehensive income

For the 6-month period ended 30 June 2016

	Note	*3-month period ended 30 June 2016 (unaudited)*	*6-month period ended 30 June 2016 (unaudited)*	*3-month period ended 30 June 2015 (unaudited*	*6-month period ended 30 June 2015 (unaudited)*
Continuing operations					
Revenue	12.1	**406 302**	**740 564**	**415 180**	**695 272**
Revenue from sale of goods and services		405 585	739 283	414 668	694 204
Revenue from sale of materials		717	1 281	512	1 068
Cost of sales	12.1	(377 907)	(685 778)	(386 217)	(643 082)
Gross profit/ (loss)		**28 395**	**54 786**	**28 963**	**52 190**
Other operating income	12.1	594	1 051	679	2 019
Selling expenses	12.1	(7 794)	(14 881)	(6 909)	(13 717)
Administrative expenses	12.1	(15 631)	(28 112)	(14 620)	(24 326)
Other operating expenses	12.1	(1 627)	(2 192)	(700)	(1 005)
Operating profit/ (loss)		**3 937**	**10 652**	**7 413**	**15 161**
Finance income	12.1	1 756	2 597	6 929	7 866
Finance costs	12.1	(1 455)	(3 313)	(744)	(3 090)
Profit/ (loss) before tax		**4 238**	**9 936**	**13 598**	**19 937**
Income tax expense	12.2	(1 280)	(2 777)	(1 804)	(5 856)
Net profit/ (loss) from continuing operations	12.23	**2 958**	**7 159**	**11 794**	**14 081**
Discontinued operations					
Profit/ (loss) from discontinued operations		–	–	–	(55)
Net profit for the period		**2 958**	**7 159**	**11 794**	**14 026**

Racibórz, 31 August 2016

Agnieszka Wasilewska-Semail	Krzysztof Burek	Jarosław Dusiło	Edward Kasprzak	Tomasz Tomczak	Jolanta Markowicz
President of the Management Board	Vice-president of the Management Board	Vice-president of the Management Board	Vice-president of the Management Board	Vice-president of the Management Board	Chief Accountant

(in PLN thousand)

Interim condensed consolidated statement of comprehensive income

For the 6-month period ended 30 June 2016

	Note	*3-month period ended 30 June 2016 (unaudited)*	*6-month period ended 30 June 2016 (unaudited)*	*3-month period ended 30 June 2015 (unaudited*	*6-month period ended 30 June 2015 (unaudited)*
Other comprehensive income for the period		**(319)**	**(78)**	**(257)**	**(472)**
Items to be reclassified to profit or loss in subsequent reporting periods					
Exchange differences on translating foreign operations		184	177	(85)	(164)
Exchange differences on translating foreign operations attributable to minority interests		25	25	2	(3)
Net other comprehensive income for the period to be reclassified to profit or loss in subsequent reporting periods		**209**	**202**	**(83)**	**(167)**
Items not to be reclassified to profit or loss in subsequent reporting periods					
Other comprehensive income due to actuarial gains/ (losses)		(651)	(344)	(214)	(376)
Tax on other comprehensive income	12.2	123	64	40	71
Net other comprehensive income not to be reclassified to profit or loss in subsequent reporting periods		**(528)**	**(280)**	**(174)**	**(305)**
Total comprehensive income for the period		**2 639**	**7 081**	**11 537**	**13 554**
Net profit attributable to:		**2 958**	**7 159**	**11 794**	**14 026**
Equity holders of the Parent	12.23	3 174	7 528	11 730	13 925
Non-controlling interests		(216)	(369)	64	101
Comprehensive income attributable to:		**2 639**	**7 081**	**11 537**	**13 554**
Equity holders of the Parent		2 830	7 425	11 471	13 456
Comprehensive income of non-controlling interests		(191)	(344)	66	98
Earnings per share:					
Basic earnings per share in PLN	12.23	0.04	0.09	0.17	0.20
Basic earnings per share from continuing operations					
Basic earnings per share in PLN	12.23	0.04	0.09	0.17	0.20

Racibórz, 31 August 2016

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President of the Management Board	Vice-president of the Management Board	Vice-president of the Management Board	Vice-president of the Management Board	Vice-president of the Management Board	Chief Accountant

(in PLN thousand)

Interim condensed consolidated statement of financial position

As at 30 June 2016

	Note	*30 June 2016 (unaudited)*	*31 December 2015*
ASSETS			
Non-current (long-term) assets			
Property, plant and equipment	12.4, 12.5	180 853	183 439
Investment properties		–	–
Intangible assets	12.5	19 447	15 211
Long-term trade receivables, other receivables and prepayments		35 968	35 648
Trade receivables	12.8, 14	35 725	35 409
Other receivables and prepayments	12.8	243	239
Long-term financial assets		30 583	30 129
Shares in other entities	12.7	227	229
Long-term loans granted	12.9, 14	–	–
Other long-term financial assets	12.9, 14	30 356	29 900
Deferred tax asset	12.2	59 204	47 796
		326 055	**312 223**
Current (short-term) assets			
Inventories	12.10	15 117	18 817
Trade receivables, other receivables and prepayments	12.13, 14	363 389	481 766
Trade receivables	12.13, 14	185 592	277 397
Current tax assets	12.13	14 011	21 137
Other receivables and prepayments	12.13	163 786	183 232
Gross amount due from customers for contract work	11	197 377	233 992
Current financial assets		255 717	203 357
Derivative financial instruments	15	–	–
Short-term deposits	14	–	70
Short-term loans granted	14	52	80
Other short-term financial assets	12.11, 14	5 946	5 946
Cash and cash equivalents	12.3, 12.12, 14	249 719	197 261
Other short-term non-financial assets			–
		831 600	**937 932**
Non-current assets held for sale		1 001	1 063
TOTAL ASSETS		**1 158 656**	**1 251 218**

Racibórz, 31 August 2016

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President of the Management Board	Vice-president of the Management Board	Vice-president of the Management Board	Vice-president of the Management Board	Vice-president of the Management Board	Chief Accountant

(in PLN thousand)

Interim condensed consolidated statement of financial position

As at 30 June 2016

	Note	*30 June 2016 (unaudited)*	*31 December 2015*
EQUITY AND LIABILITIES			
Equity (attributable to equity holders of the Parent)			
Issued capital	12.16	169 864	169 864
Share premium	12.19	95 340	95 340
Reserve capital	12.20	140 583	112 715
Exchange differences on translating foreign operations	12.21	136	(41)
Retained earnings/ (Accumulated losses)	12.22	26 593	47 213
		432 516	**425 091**
Equity attributable to non-controlling interests		8 267	4 675
Total equity		**440 783**	**429 766**
Non-current liabilities			
Interest-bearing loans and borrowings		–	–
Finance lease liabilities	12.25, 14	3 874	3 686
Deferred tax liability	12.2	185	94
Provision for employee benefits	12.24, 16.2	23 877	23 552
Long-term trade and other payables		32 990	40 332
Trade payables	12.25, 14	26 180	34 844
Capital commitments	12.25, 14, 21	434	852
Other liabilities	12.25	6 376	4 636
		60 926	**67 664**
Current liabilities			
Trade and other payables		374 531	467 547
Trade payables	12.26, 14	299 866	400 842
Capital commitments	14, 21	2 248	2 663
Current tax liability		5	4
Other liabilities	12.26	72 412	64 038
Current portion of interest-bearing loans and borrowings	14, 17, 18	149 718	109 208
Other financial liabilities and finance lease liabilities	14	2 342	1 542
Provision for employee benefits	12.24, 16.2	2 017	2 004
Gross amount due to customers for contract work and provisions for contract work and deferred income	11	128 339	173 487
Amount due to customers for construction contracts	11	97 362	142 795
Provisions for construction contract work	11, 16	30 126	29 885
Grants		851	807
		656 947	**753 788**
Liabilities directly relating to held for sale assets		–	–
Total liabilities		**717 873**	**821 452**
TOTAL EQUITY AND LIABILITIES		**1 158 656**	**1 251 218**

Racibórz, 31 August 2016

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President of the Management Board	Vice-president of the Management Board	Vice-president of the Management Board	Vice-president of the Management Board	Vice-president of the Management Board	Chief Accountant

(in PLN thousand)

Interim condensed consolidated statement of cash flow

For the 6-month period ended 30 June 2016

	Note	*6-month period ended 30 June 2016 (unaudited)*	*6-month period ended 30 June 2015 (unaudited)*
Cash flow from operating activities			
Profit/ (loss) before tax from continuing operations		9 936	19 937
Profit/ (loss) before tax from discontinued operations		–	(66)
Profit/ (loss) before tax		9 936	19 871
Adjustments for:		**7 898**	**(57 530)**
Depreciation and amortization		7 146	6 329
FX (gains)/ losses		87	112
Interest and dividends, net		1 911	2 185
(Gain)/ loss on investing activities		(681)	(2 501)
Increase/ (decrease) in liabilities/ assets from valuation of derivative financial instruments		–	(89)
(Increase)/ decrease in receivables	12.3	110 683	(98 411)
(Increase)/ decrease in inventories		3 700	1 769
Increase/ (decrease) in payables, and provisions for employee benefits, except for loans and borrowings	12.3	(90 077)	54 294
Change in prepayments and accruals for construction contracts	12.3	(8 577)	(4 664)
Income tax (paid)/ received		(16 292)	(16 583)
Other		(2)	29
Net cash from operating activities		**17 834**	**(37 659)**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		707	1 074
Purchase of property, plant and equipment and intangible assets	12.3	(3 440)	(11 575)
Sale of financial assets		171	21 430
Purchase of financial assets		(202)	–
Repayment of loans granted		–	20
Dividends and interest received		25	292
Other		–	(1 440)
Net cash from investing activities		**(2 739)**	**9 801**
Cash flow from financing activities			
Proceeds from issue of shares		–	–
Payment of finance lease liabilities		(1 404)	(924)
Proceeds from loans and borrowings taken out	12.3	40 016	1 313
Repayment of loans and borrowings		–	–
Interest paid	12.3	(1 113)	(2 105)
Bank commissions		(169)	(1 026)
Other		(164)	(116)
Net cash from financing activities		**37 166**	**(2 858)**
Net increase (decrease) in cash and cash equivalents		**52 261**	**(30 716)**
Net FX differences		197	(170)
Cash and cash equivalents at the beginning of the period	12.12	197 261	65 899
Cash and cash equivalents at the end of the period	12.12	249 719	35 013

Racibórz, 31 August 2016

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(in PLN thousand)

Interim condensed consolidated statement of changes in equity

For the 6-month period ended 30 June 2016

	Issued capital	*Share premium*	*Reserve capital*	*Exchange differences on translating foreign operations*	*Retained earnings/ (Accumulated losses)*	*Total*	*Non-controlling interests*	*Total eqity*
As at 1 January 2016	**169 864**	**95 340**	**112 715**	**(41)**	**47 213**	**425 091**	**4 675**	**429 766**
Comprehensive income for the period	–	–	–	177	7 248	**7 425**	(344)	7 081
Dividend	–	–	–	–	–	–	–	–
Appropriation of prior year profits	–	–	27 868	–	(27 868)	–	–	–
Change in the structure of Capital Group	–	–	–	–	–	–	3 936	3 936
As at 30 June 2016 *(unaudited)*	**169 864**	**95 340**	**140 583**	**136**	**26 593**	**432 516**	**8 267**	**440 783**
As at 1 January 2015	**139 200**	**36 778**	**114 393**	**190**	**10 700**	**301 261**	**12 193**	**313 454**
Comprehensive income for the period	–	–	–	(164)	13 620	13 456	98	13 554
Appropriation of prior year profits	–	–	25 674	–	(25 674)	–	–	–
Dividend	–	–	–	–	–	–	–	–
Change due to loss of control over subsidiary	–	–	(27 352)	–	27 352	–	(11 452)	(11 452)
As at 30 June 2015 *(unaudited)*	**139 200**	**36 778**	**112 715**	**26**	**25 998**	**314 717**	**839**	**315 556**

Racibórz, 31 August 2016

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NOTES

1. General information

The RAFAKO Group (the „Group") is composed of RAFAKO S.A. (the "Parent") and of its subsidiary companies presented in Note 8.

RAFAKO S.A. (the "Company" or the "Parent") is a joint stock company with its registered office in Racibórz, at ul. Łąkowa 33. The Company was established based on a notarial deed dated 12 January 1993. On 24 August 2001, the Company was entered in the Register of Entrepreneurs kept by the District Court in Gliwice, X Commercial Department of the National Court Register, entry number KRS 34143. The Company was granted statistical number REGON 270217865.

The Company and the companies making up the Capital Group have an unlimited period of operation.

The interim condensed consolidated financial statements of the Group cover the period of 6 months ended 30 June 2016 and contain consolidated comparative data for the 6-month period ended 30 June 2015 and as at 31 December 2015. The interim condensed consolidated statement of comprehensive income cover the period of 3 months ended 30 June 2016 and the comparative data for the 3-month period ended 30 June 2015 – these were not subject to a review or audit by a certified auditor.

The Group's principal business activities comprise:

- Manufacture of steam generators, excluding central heating hot water boilers,
- Repair and maintenance of metal finished goods,
- Installation of industrial machinery, plant and equipment,
- Manufacture of metal structures and parts thereof,
- Other specialized construction work n.e.c.,
- Manufacture of industrial cooling and ventilation equipment,
- Manufacture of other metal reservoirs, tanks and containers,
- Machining,
- Metalworking and coating,
- Manufacture of machinery for metalworking,
- Repair and maintenance of machinery,
- Activities in the field of architecture,
- Activities in the field of engineering and related technical consultancy,
- Production of ovens, furnaces and furnace burners,
- Wholesale of other machinery and equipment,
- Wholesale of metals and metal ores,
- Manufacture of other general-purpose machinery n.e.c.,
- Manufacture of tools,
- Production of electricity,
- Transmission of electricity,
- Distribution of electricity,
- Trade in electricity,
- Production and supply of steam, hot water and air for air-conditioning systems,
- Wholesale of hardware, plumbing and heating equipment and supplies,
- Rental and management of freehold or leasehold property,
- Other technical testing and analyses,
- Other non-school forms of education n.e.c.,
- Sewage disposal and treatment,
- Hotels and similar accommodation facilities,
- Holiday and other short-stay accommodation,
- Restaurants and other permanent catering facilities,
- Other catering services,
- Activities of cultural facilities,

- Other recreation and entertainment facilities,
- Activities related to organization of fairs, exhibitions and congresses,
- Scientific research and development work in the field of other natural and technical sciences,
- Forging, pressing, stamping and roll-forming of metal; powder metallurgy,
- Manufacture of instruments and appliances for measuring, testing and navigation,
- Manufacture of electric motors, generators and transformers,
- Production of electricity distribution and control apparatus,
- Manufacture of engines and turbines, except aircraft, vehicle and cycle engines,
- Manufacture of hydraulic and pneumatic drive equipment and accessories,
- Manufacture of other pumps and compressors,
- Manufacture of lifting and handling equipment,
- Repair and maintenance of electrical equipment,
- Treatment and disposal of non-hazardous waste,
- Dismantling of wrecks,
- Remediation activities and other waste management services,
- Construction of residential and non-residential buildings,
- Construction of roads and motorways,
- Construction of railways and underground railways,
- Construction of pipelines and distribution systems,
- Construction of telecommunications lines and power lines,
- Construction of other civil engineering objects n.e.c.,
- Dismantling and demolition of buildings,
- Site preparation,
- Digging, drilling and boring for geological and engineering purposes,
- Installation of electrical wiring and fittings,
- Installation of plumbing, heat, gas and air-conditioning systems,
- Other building installation,
- Erection of roof covering and frames,
- Wholesale of waste and scrap,
- Warehousing and storage of other goods,
- Software related activities,
- Computer consultancy activities,
- IT equipment management activities,
- Other services in the field of information and computer technology,
- Data processing; hosting and related activities,
- Specialized design activities,
- Renting and leasing of cars and vans,
- Renting and leasing of other motor vehicles, except motorcycles,
- Renting and leasing of construction machinery and equipment,
- Renting and leasing of office machinery and equipment including computers,
- Renting and leasing of other machinery, equipment and tangible goods n.e.c.,
- Repair and maintenance of computers and peripheral equipment,
- Operation of sports facilities,
- Other sports activities,
- Other business and management consultancy activities.

The Parent has a self-reporting Branch in Turkey which prepares its financial statements in accordance with Turkish law. The functional currency of the Branch is EUR.These interim condensed consolidated financial statements of the RAFAKO Group have been prepared in accordance with the historical cost principle, modified with respect to financial instruments measured at fair value.

The interim condensed consolidated financial statements are presented in Polish zloty („PLN") and all amounts are stated in PLN thousands, unless otherwise indicated.

These interim condensed consolidated financial statements of the Group for the 6-month period ended 30 June 2016 were authorized for issue by the Parent's Management Board on 31 August 2016.

The Company's interim financial result may not be indicative of its potential full-year financial performance.

2. Basis of preparing interim condensed consolidated financial statements

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards authorised for use in the EU („IFRS"), in particular in accordance with the International Accounting Standard No. 34.

The International Financial Reporting Standards comprise standards and interpretations authorized by the International Accounting Standards Board („IASB") and the International Financial Reporting Interpretations Committee („IFRIC").

The interim condensed consolidated financial statements of the Group have been prepared on the assumption that the Group will continue as a going concern in the period of at least 12 months after the reporting date i.e. after 30 June 2016.

To be able to continue as a going concern, the Group must maintain its financial liquidity i.e. its ability to secure sufficient financing for the current contracts. In view of the above, the Management Board of the Parent has prepared financial projections covering the period of 12 months from 30 June 2016 and for the following years, based on a number of assumptions, the most important of which relate to:

- timely delivery and execution of the contracts in the Group's current order book, including in particular the timely generation of cash flows from the contracts,

- timely delivery and execution of the contracts in the Group's current order book on the assumption that the target margins would be achieved and the loss already recognized on some contracts would not increase,

- continuation with the activities aimed at maintaining and extending the Group's order book – these activities also comprise the process of acquisition of significant contracts, about which the Parent informed in its recent current reports,

- continued financing of the Parent's operations with a credit facility after 30 June 2017 and fulfilment of all liabilities and obligations arising from signed contract (with annexes) – pursuant to the annex dated 30 June 2016, the maturity date of the RAFAKO S.A.'s loan referred to below was extended until 30 June 2017 ,

- release of cash locked in performance bonds against delivery of appropriate bank guarantees to the Parent's trading partners. As at the date of these interim condensed consolidated financial statements, RAFAKO S.A. had PLN 186m available in open guarantee lines provided by several financial institutions with approx. 58% of the limit currently used. Availability of the unused portion of the facilities and success in negotiations with financial institutions concerning further bank/ insurance guarantees will enable the Group to perform new contracts it expects to be awarded during the 12 months subsequent to 30 June 2016 (about which the Parent informed in its current reports).

The financial position of the RAFAKO Group is greatly affected by the financial position of the subsidiary company, E003B7 sp. z o.o., which as at 30 June 2016 had PLN 213.7m of available cash. The financial position of the Group should be analysed after considering the restrictions in using the Group's cash, as was described in more detail in Note 12.1 to these interim condensed consolidated financial statements.

With respect to the first half of 2016, attention should be paid to the facts relating to the Parent's assumptions regarding sources of financing made while preparing the financial statements for the year ended 31 December 2015. On 30 June 2016, RAFAKO S.A., in accordance with the assumptions made, effected signing with PKO BP S.A. an annex which prolonged the maturity date for the bank loan of PLN 150m to 30 June 2017, signing with mBank an agreement on issuing by this bank guarantees relating to the Jaworzno Project performance, as well as signing with TAURON Wytwarzanie S.A. an annex on bringing forward the milestones on this project (which resulted in settlement of a significant part of work performed by the Parent in 2016). All these activities were carried out according to the plans of the Management Board and had positive impact on the liquidity position of the Parent.

In addition, after 30 June 2016 the Parent was notified about selecting by UAB Verslo Aptarnavimo Centras of the RAFAKO S.A.'s proposal filed in the public procurement procedure for the award of a contract „Construction of a biomass-powered cogeneration unit composed of the CFB boilers (Circulating Fluidized Bed boilers) and biomass storage and administration system", realised as part of the construction of a new cogeneration (heat and power) plant in Vilnius (Lithuania) with a value of EUR 150m. On 3 August 2016, RAFAKO S.A. was also notified by ENEA Wytwarzanie Sp. z o.o. in Swierże Górne about selecting, as the most favourable, of the RAFAKO S.A.'s proposal, filed in an open-end public procurement procedure, for the award of the contract „Delivery and assembly of a Catalytic De-nitriding System or the SCR (selective catalytic removal) system for AP-1650 boilers No. 9 and 10 and modernization of electro-filters at ENEA Wytwarzanie sp. z o.o" with a net value of PLN 289m. As at the date of these interim condensed consolidated financial statements, contracts for said projects were not yet signed due to the appeal proceedings in progress in the so-called standstill period. However, according to the best knowledge of the Parent's Management Board, the outcome of these proceedings will be favourable to the Company. The above indicates that the activities undertaken by the Management Board to acquire new contracts have continued to be intensified and should have positive impact on the positon of RAFAKO S.A. in the future.

The Management Board of the Parent believes that the above key assumptions underlying the financial projections will materialize and will materially improve the Group's liquidity during at least the 12 months subsequent to the reporting date.

Given the circumstances described above, the Management Board of the Parent believes that the financial projections for the ensuing financial year will materialize and thus these interim condensed consolidated financial statements were prepared on the going concern basis.

The Group applied the IFRSs which are applicable to the financial statements beginning on 1 January 2016.

These interim condensed consolidated financial statements do not include all the information and disclosures required in annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2015, which were authorized for issue on 21 March 2016.

The Group's interim financial performance may not be indicative of its potential full-year performance. The Group applied the IFRSs applicable to consolidated financial statements prepared for the year beginning on 1 January 2016.

3. Significant accounting policies

The accounting policies applied in preparing these interim condensed consolidated financial statements are consistent with the policies applied in preparing the Group's annual consolidated financial statements for the year ended 31 December 2015, save for the effect of application of the following new or amended Standards and Interpretations effective for annual reporting periods beginning on or after 1 January 2016:

- *Annual Improvements 2010-2012 Cycle* including*:*
  - Amendments to IFRS 2 *Share-based payment*
    These amendments are applied prospectively. They clarify the definition of a market and a vesting condition by separately defining and introducing the definition of a service condition and a performance condition.
    The Group companies do not operate any share-based programs and thus these amendments had no effect on the financial standing or performance of the Group.

- Amendments to IFRS 3 *Business Combinations*
  The amendments are applied prospectively and clarify that the contingent consideration which is not classified as element of equity is measured at fair value through profit or loss, irrespective of whether or not it falls within the scope of IAS 39.
  The application of these amendments had no effect on the financial standing or performance of the Group.
- Amendments to IFRS 8 *Operating Segments*
  The amendments are applied retrospectively and clarify that:
  - an entity should disclose the judgment made by the Management Board in the process of applying the criteria of operating segments aggregation described IFRS 8.12, including a brief description of the operating segments that have been aggregated and of the economic characteristics of segments used to assess whether the segments are 'similar',
  - the reconciliation of segment assets to total entity's assets is required to be disclosed only, if the reconciliation data is reported to the chief operating decision maker.

  The application of these amendments had no effect on the financial standing or performance of the Group.

- Amendments to IAS 16 *Property, Plant and Equipment and IAS 38 Intangible assets*
  The amendments are applied retrospectively and clarify that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value, or by determining the gross carrying amount of the asset proportionately, so that the thus determined asset's carrying amount matches market value. Additionally, the accumulated depreciation or amortization is the difference between the gross and the carrying amount of an asset.
  The amendments relate to valuation of property, plant and equipment and intangible assets in accordance with the revalued model. The Group's companies do not use this model and therefore the application of these amendments had no effect on the financial standing or performance of the Group.

- Amendments to IFRS 13 *Fair value measurement*
  The amendments clarify that deleting the paragraph B5.4.12 from IFRS 9 *Financial instruments: recognition and measurement* was not aimed at changing the requirements of valuation of short – term receivables and liabilities. Accordingly, entities still have the right to measure the short-term non-interest-bearing liabilities and receivables at their nominal value, if the effect of discounting does not have any significant effect on the presented financial data.
  The application of these amendments had no effect on the financial standing or performance of the Group.

- Amendments to IAS 24 *Related Party Disclosures*
  The amendments are applied retrospectively and clarify that a managing company (an entity that provides key management services) is treated as a related entity subject to the required related party disclosures. In addition, an entity that uses the services of a managing company is required to disclose the costs incurred for such management services.
  The Group does not use the services of a managing company.

- *Annual Improvements 2012-2014 Cycle, including:*
  - Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
    Assets (or disposal groups) are usually disposed of by way of sale or issue to owners. The amendments clarify that change of one method to another is not treated as a new disposal plan, but rather as a continuation of the original plan.
    The application of these amendments had no effect on the financial standing or performance of the Group.

  - Amendments to IAS 34 *Interim financial reporting*
    The amendments clarify that the requirements regarding interim disclosures may be fulfilled both by including appropriate disclosures in the interim financial statements or by incorporating cross-references between the interim financial statements and other reports (e.g. Directors' Report on activities). The disclosures presented in other reports must be available to the users on the same terms and at the same time as the interim financial statements.
    The application of these amendments had no effect on the financial standing or performance of the Group.

- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization*
  The amendments clarify the methods included in IAS 16 and IAS 38 stating that the depreciation/ amortization method based on revenues reflects the pattern in which an entity generates economic benefits from an item of assets rather than the expected pattern of using future economic benefits from that asset. As a result, the revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. These amendments must be applied prospectively.
  The application of these amendments had no effect on the financial standing or performance of the Group.

- Amendments to IAS 27 *Equity Method in Separate Financial Statements*
  The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The entities that are already applying IFRSs and electing to change the equity method to account for its investments will have to apply that change retrospectively.
  In the attached interim condensed consolidated financial statements, Group companies did not use the option proposed by the amendments.

- Amendments to IFRS 1 *Disclosure Initiative*
  The amendments clarify the existing IAS 1 requirements, concerning:
  - materiality,
  - aggregation and subtotals,
  - order of the notes,
  - aggregation of information on the share in other comprehensive income of associates and joint ventures accounted for using the equity method - as a single item disclosure.

  Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position, statement(s) of profit or loss and in the statement of other comprehensive income.
  The application of these amendments had no effect on the financial standing or performance of the Group.

Also, the following new or amended Standards and Interpretations are applicable to annual reporting periods beginning on or after 1 January 2015, but do not concern the information presented and disclosed in the Group's financial statements:

- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*
  The amendment relates to accounting for bearer plants.
- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*
  The amendment relates to accounting for acquisitions of interests in joint operations by the acquirer.
- Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*
  The amendment relates to accounting for contributions made by employees or third parties when accounting for defined benefit plans.
- *Annual Improvements to IFRSs 2012-2014 Cycle, comprising:*
  - Amendments to IFRS 7 *Financial instruments: Disclosure*
    I. *Servicing contracts – the amendment clarifies that a servicing contract that includes a fee can constitute a continuing involvement in a financial asset.*
    II. *Applicability of the amendments to IFRS 7 (issued in December 2011) to condensed interim financial statements*
  - *Amendments to IAS 19 Defined Benefit Plans*
    The amendment relates to evaluation of discount rate.

The application of the amendments had no effect on the financial standing, performance or the scope of disclosure in the interim condensed consolidated financial statements.

The Group has not elected to early adopt any of the standards, interpretations or amendments that have been published but are not yet effective as not yet endorsed by the European Union.

4. New standards and interpretations that have been issued but are not yet effective

The following standards and interpretations were issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee (IFRIC) but are not yet effective:

- **IFRS 9** ***Financial Instruments*** (issued on 24 July 2014) – at the date of authorization of these interim condensed consolidated financial statements, not endorsed by the EU; effective for annual periods beginning on or after 1 January 2018;
- **IFRS 14** ***Regulatory Deferral Accounts*** (issued on 30 January 2014) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard. At the date of authorization of these interim condensed consolidated financial statements, not endorsed by the EU; effective for annual periods beginning on or after 1 January 2016;
- **IFRS 15** ***Revenue from Contracts with Customers*** (issued on 28 May 2014) - including amendments to IFRS 15 *Effective date of IFRS 15* (issued on 11 September 2015) - at the date of authorization of these interim condensed consolidated financial statements, not endorsed by the EU; effective for annual periods beginning on or after 1 January 2018;
- **Amendments to IFRS 10 and IAS 28** ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*** (issued on 11 September 2014) – works relating to the authorization of these amendments were postponed by the EU for an indefinite period of time; and the effective date was postponed by the IASB for an indefinite period of time;
- **Amendments to IFRS 10, IFRS 12 and IAS 28** ***Investment Entities - Applying the Consolidation Exception*** (issued on 18 December 2014) – at the date of authorization of these interim condensed consolidated financial statements, not endorsed by the EU; effective for annual periods beginning on or after 1 January 2016;
- **IFRS 16** ***Leases*** (issued on 13 January 2016) - at the date of authorization of these interim condensed consolidated financial statements, not endorsed by the EU; effective for annual periods beginning on or after 1 January 2019;
- **Amendments to IAS 12** ***Recognition of Deferred Tax Assets for Unrealised Losses*** (issued on 19 January 2016) - at the date of authorization of these interim condensed consolidated financial statements, not endorsed by the EU; effective for annual periods beginning on or after 1 January 2017;
- **Amendments to IAS 7** ***Disclosure Initiative*** (issued on 29 January 2016) - at the date of authorization of these interim condensed consolidated financial statements, not endorsed by the EU; effective for annual periods beginning on or after 1 January 2017;
- **Explanations to IFRS 15** ***Revenue from Contracts with Customers*** (issued on 12 April 2016) - at the date of authorization of these interim condensed consolidated financial statements, not endorsed by the EU; effective for annual periods beginning on or after 1 January 2018;
- **Amendments to IFRS 2** ***Classification and measurement of share-based payment transactions*** (issued on 20 June 2016) – at the date of authorization of these interim condensed consolidated financial statements, not endorsed by the EU; effective for annual periods beginning on or after 1 January 2018.

The Group has not elected to early adopt any of the standards, interpretations or amendments that have been published but are not yet effective.

As at the date of the preparation of these interim condensed consolidated financial statements, the adoption of the above standards or interpretations and the impact of their first time application on the financial information have been analysed by the Management Board of the parent company.

5. Significant judgments and estimates

5.1. Professional judgment

When preparing interim condensed consolidated financial statements of the Group, the Management Board of the Parent has to make some judgments, assumptions and estimates which affect the presented revenue, costs, assets and liabilities as well as related notes and disclosures concerning contingent liabilities. Uncertainties relating to these assumptions and estimates may result in material changes to the carrying amounts of the assets and liabilities in the future.

Apart from the accounting estimates, the management's professional judgment, which affects the amounts recognised in the financial statements, was of key importance in the application of the accounting policies in the cases described below. The assumptions underlying these estimates are based on the management's best knowledge of current and future activities and events in the particular areas.

Classification of leases where the Group is the lessee

The Group companies are parties to lease agreements. The Group classifies its lease agreements as finance leases or operating leases based on the assessment of the extent to which the risks and rewards incidental to ownership of leased assets have been transferred from the lessor to the lessee. The assessment is based on economic substance of each transaction.

Identification of embedded derivatives

At the end of each reporting period the Group makes an assessment of the contracts signed for whether they contain any embedded foreign currency derivatives whose economic characteristics and risks are closely related to those of the host contract.

Syndicated agreements

Each time after signing a construction contract to be implemented as part of a consortium, the Management Board evaluates the nature of the contract in order to determine the method of accounting for contract revenue and expenses.

5.2. Uncertainty of estimates

The key assumptions concerning the future and other sources of estimation uncertainty at the end of the reporting period that carry a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities in the next financial year are discussed below. The Group used the assumptions and estimates concerning the future based on its knowledge as at the time of preparation of these financial statements. The assumptions and estimates contained in these financial statements may change in the future due to market developments or factors beyond the Group's control. Such developments or factors will be reflected in the estimates as and when they occur.

Estimates relating to the following items had a critical impact on the net result for the 6 months ended 30 June 2016 and the amounts of assets and liabilities as at 30 June 2016.

- budgeted revenue from and costs of execution of construction contracts, based on which the executed contracts are measured in accordance with IAS 11,
- estimated amount of contractual penalties for late performance of contracts,
- estimated amount of provisions for employee benefits (the Group incurs costs of jubilee bonuses and post-employment benefits),
- impairment of assets, including financial assets (e.g. receivables under arbitration and arrangement proceedings),
- depreciation and amortization rates applied,
- utilisation of deferred tax asset (including the deferred tax asset on tax loss).

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that carry a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are discussed below.

Impairment of assets

At the end of the reporting period, the Group conducts a test for impairment of goodwill and an analysis of the impairment of property, plant and equipment and intangible assets with defined useful lives for which indications of impairment have been identified. This requires an estimation of the value in use of a cash-generating unit to which these assets belong. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. Group companies made an assessment of whether there are any indications of impairment of assets. The analysis showed that during the 6-month period ended 30 June 2016 there were no such indications.

The amounts of the impairment write-downs on other assets at the end of the reporting period are presented in Note 12.14 to these interim condensed consolidated financial statements.

Valuation of provisions for employee benefits

Provisions for employee benefits were estimated with actuarial methods.

The actuarial assumptions adopted for this purpose are presented in Note 12.24 and do not differ from the assumptions made as at 31 December 2015. The change in provisions for employee benefits was caused by the recognition of current service costs, interest expense and benefits paid.

Fair value of financial instruments

Fair value of financial instruments for which there is no active market is determined with the use of appropriate valuation techniques. In selecting appropriate valuation methods and assumptions, the Group relies on professional judgment. For information on the fair value measurement method for individual financial instruments, see Note 14.

Revenue recognition

In accounting for its long-term contracts, the Group used the percentage of completion method. The use of this method requires the Group to estimate the percentage of completion. If the estimated total cost of contract execution increased by 10% in relation to the Group's original estimate, the revenue would decrease by approx. PLN 58.5 million. Revenue recognition incurs the risk of estimates which was described in more detail in Note 11.

Depreciation rates

Depreciation rates and charges are determined based on the expected economic useful lives of property, plant and equipment and their estimated residual values. The Group reviews the useful lives of its assets annually, on the basis of current estimates.

Deferred tax asset

The Group recognizes deferred tax assets based on the assumption that taxable profits will be available in the future against which the deferred tax asset can be utilized. Deterioration of future taxable profits might render this assumption unreasonable. Deferred tax assets are measured using the tax rates that are expected to apply in the period when the asset is expected to be realised, based on tax laws in effect at the date of these interim condensed consolidated financial statements.

Provision for expected losses on contracts

At the end of each reporting period, the Group re-measures total estimated revenues and costs of construction contracts accounted for using the percentage of completion method. Any expected loss on the contract is recognized as an expense in accordance with IFRS. Details of accounting for construction contract revenue and costs for the reporting period are presented in Note 11 to these interim condensed consolidated financial statements.

Provision for costs due to late performance of contracts

The Group recognizes a provision for contractual penalties arising from late performance of contracts if the probability of being charged for the delay in the performance of the contract is significant and the delay is due to the fault of Group companies as contractors. The amount of the provision reflects the amount of the contractual penalty that may be charged for a given period of delay. Details of provisions estimated in this manner are presented in Note 11 to these interim condensed consolidated financial statements.

(in PLN thousand)

Impairment of financial assets

At the end of the reporting period, the Group makes an assessment of whether there is any objective evidence of impairment of a receivable or a group of financial assets. Where the recoverable amount of the asset is less than its carrying amount, the entity recognizes an allowance to bring down the carrying amount to the present value of the expected cash flows. For a detailed discussion of fair value/ recoverable amount of receivables from related parties in the bankruptcy, see Note 24.

Recognition of a financial asset (receivable) due to loss of control of a subsidiary

As a result of the loss of control of a subsidiary as discussed in detail in Note 24, the Group recognized in the consolidated statement of financial position for the year 2012 a receivable, initially recognized at fair value i.e. the present value of the expected inflows. This valuation was performed based on a set of assumptions, such as the estimated discounting period, estimated amount of the inflow, estimated discount rate. Given the uncertainty as to the Parent's ability to claim a refund of the price paid for the shares of ENERGOMONTAŻ - POŁUDNIE S.A., the estimation of the parameters for measurement of the receivable, in particular at its initial recognition, is difficult and subject to uncertainty.

Valuation of receivables from related parties under arrangement proceedings

As at the date of these interim condensed consolidated financial statements, the Judge Commissioner confirmed that voluntary arrangement, consistent with the arrangement proposals, had been reached between PBG and its creditors (for more details, see Note 24). The Parent's Management Board re-measured the related receivable as discussed in the subsection called *"Recognition of a financial asset (receivable) as a result of loss of control over a subsidiary"* based on new assumptions, i.e. the fair value of the receivable was estimated taking into account the expected cash inflows to RAFAKO S.A., taking into consideration PBG S.A.'s arrangement proposals providing for the repayment of PLN 500 thousand and an 80% reduction of the debt in excess of PLN 500 thousand (for which no deferred tax asset was recognized) and the expected timing of the first inflow of cash in the 5-year repayment period, which according to the reached arrangement was assessed by the Management Board of RAFAKO S.A. at 15 September 2016.

Functional and presentation currency

The Polish zloty is the functional and presentation currency of these interim condensed consolidated financial statements.

For the purpose of period-end valuation, the following exchange rates were used:

	30 June 2016	*31 December 2015*	*30 June 2015*
USD	3.9803	3.9011	3.7645
EUR	4.4255	4.2615	4.1944
GBP	5.3655	5.7862	5.9180
CHF	4.0677	3.9394	4.0412
SEK	0.4696	0.4646	0.4558
TRY	1.3791	1.3330	1.3993

6. Changes in estimates

In the 6-month period ended 30 June 2016 and as at 30 June 2016, no changes were made to the accounting estimates in the significant areas of the Group's business, which were described in Note 5.2.

7. Operating segments

Management of the Group's business is based on separate segments, corresponding to the types of products and services offered. Each segment is the Group's component which earns revenues and incurs costs, in accordance with IFRS 8 *Operating segments.*

The Group identifies the following operating segments, in which the individual Group companies are engaged:

Operating segments	Segment companies
Power and environmental protection facilities	RAFAKO S.A. E001RK Sp. z o.o. E003B7 Sp. z o.o.
Other segments	PGL – DOM Sp. z o.o. RAFAKO ENGINEERING Sp. z o.o. ENERGOTECHNIKA ENGINEERING Sp. z o.o. RAFAKO ENGINEERING SOLUTION doo. RAFAKO Hungary Kft.

The power and environmental protection facilities segment offers power generating units, stoker-fired boilers, pulverised fuel boilers, stationary and circulating fluidized bed boilers; heat recovery steam generators; systems and facilities ancillary to boilers; wet, semi-dry and dry flue gas desulfurization systems, flue gas denitrification technologies; dust extraction equipment, including electrostatic precipitators and bag filters, as well as industrial and municipal waste incineration system. The Company is a supplier to both commercial and industrial power plants.

Other segments are made up of those segments which do not meet the quantitative threshold set out in IFRS 8, including property management and design services rendered by other entities of the Group.

The Management Board monitors the segments' operating performance to make decisions on allocation of resources and evaluate the results of the allocation as well as results of operations. Results of operations are evaluated based on operating profit or loss.

(in PLN thousand)

6-month period ended 30 June 2016 or as at 30 June 2016 (unaudited)	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations & unallocated items*	*Total*
Revenue					
Sales to external customers	730 621	9 677	740 298	266	740 564
Inter-segment sales	502	10 093	10 595	(10 595)	–
Total revenue	731 123	19 770	750 893	(10 329)	740 564
Cost of sales	(684 545)	(17 306)	(701 851)	16 073	(685 778)
Result					
Gross profit/ (loss)	46 578	2 464	49 042	5 744	54 786
Other income/ (expenses)	(38 651)	(2 895)	(41 546)	(2 588)	(44 134)
Operating profit/ (loss)	7 927	(431)	7 496	3 156	10 652
Finance income/ (costs)	(491)	24	(467)	(249)	(716)
Profit/ (loss) before tax	7 436	(407)	7 029	2 907	9 936
Income tax expense	(2 832)	(102)	(2 934)	157	(2 777)
Net profit/ (loss) from continuing operations	4 604	(509)	4 095	3 064	7 159
Depreciation and amortization	6 464	719	7 183	(37)	7 146
Share in profit of associates	–	–	–	–	–
Assets and liabilities as at 30 June 2016 (unaudited)					
Assets	1 313 662	67 485	1 381 147	(222 491)	1 158 656
Liabilities	880 851	17 398	898 249	(180 376)	717 873
Other information					
Investments in associates	–	–	–	–	–
Capital expenditure	3 985	5 059	9 044	–	9 044

(in PLN thousand)

3-month period ended 30 June 2016 or as at 30 June 2016 (unaudited)	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations & unallocated items*	*Total*
Revenue					
Sales to external customers	401 094	5 051	406 145	157	406 302
Inter-segment sales	309	6 296	6 605	(6 605)	–
Total revenue	401 403	11 347	412 750	(6 448)	406 302
Cost of sales	(378 799)	(10 142)	(388 941)	11 034	(377 907)
Result					
Gross profit/ (loss)	22 604	1 205	23 809	4 586	28 395
Other income/ (expenses)	(21 291)	(1 763)	(23 054)	(1 404)	(24 458)
Operating profit/ (loss)	1 313	(558)	755	3 182	3 937
Finance income/ (costs)	429	10	439	(138)	301
Profit/ (loss) before tax	1 742	(548)	1 194	3 044	4 238
Income tax expense	(868)	144	(724)	(556)	(1 280)
Net profit/ (loss) from continuing operations	874	(404)	470	2 488	2 958
Depreciation and amortization	3 268	399	3 667	(19)	3 648
Share in profit of associates	–	–	–	–	–
Assets and liabilities as at 30 June 2016 (unaudited)					
Assets	1 313 662	67 485	1 381 147	(222 491)	1 158 656
Liabilities	880 851	17 398	898 249	(180 376)	717 873
Other information					
Investments in associates	–	–	–	–	–
Capital expenditure	2 142	4 943	7 085	(1)	7 084

6-month period ended 30 June 2015 or as at 30 June 2015 (unaudited)	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Furnaces and mills – discontinued operations*	*Eliminations & unallocated items*	*Total*

Revenue						
Sales to external customers	693 688	5 349	699 037	8 542	(12 307)	695 272
Inter-segment sales	251	6 710	6 961	–	(6 961)	–
Total revenue	693 939	12 059	705 998	8 542	(19 268)	695 272
Cost of sales	(637 738)	(9 482)	(647 220)	(7 023)	11 161	(643 082)
Result						
Gross profit/ (loss)	56 201	2 577	58 778	1 519	(8 107)	52 190
Other income/ (expenses)	(31 200)	(1 701)	(32 901)	(1 594)	(2 534)	(37 029)
Operating profit/ (loss)	25 001	876	25 877	(75)	(10 641)	15 161
Finance income/ (costs)	7 537	91	7 628	(57)	(2 795)	4 776
Profit/ (loss) before tax	32 538	967	33 505	(132)	(13 436)	19 937
Income tax expense	(8 135)	(338)	(8 473)	11	2 606	(5 856)
Net profit/ (loss) from continuing operations	24 403	629	25 032	(121)	(10 830)	14 081
Depreciation and amortization	5 604	498	6 102	265	(38)	6 329
Share in profit of associates	–	–	–	–	–	–
Assets and liabilities as at 30 June 2015 (unaudited)						
Assets	1 171 299	46 561	1 217 860	–	(56 834)	1 161 026
Liabilities	858 027	9 732	867 759	–	(22 289)	845 470
Other information						
Investments in associates	–	–	–	–	–	–
Capital expenditure	7 290	233	7 523	1 020	–	8 543

3-month period ended 30 June 2015 or as at 30 June 2015 (unaudited)	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Furnaces and mills – discontinued operations*	*Eliminations & unallocated items*	*Total*
Revenue						
Sales to external customers	419 439	3 550	422 989	–	(7 809)	415 180
Inter-segment sales	95	2 777	2 872	–	(2 872)	–

(in PLN thousand)

Total revenue	419 534	6 327	425 861	–	(10 681)	415 180
Cost of sales	(391 216)	(4 831)	(396 047)	–	9 830	(386 217)
Result						
Gross profit/ (loss)	28 318	1 496	29 814	–	(851)	28 963
Other income/ (expenses)	(16 623)	(789)	(17 412)	–	(4 138)	(21 550)
Operating profit/ (loss)	11 695	707	12 402	–	(4 989)	7 413
Finance income/ (costs)	8 420	10	8 430	–	(2 245)	6 185
Profit/ (loss) before tax	20 115	717	20 832	–	(7 234)	13 598
Income tax expense	(2 974)	(217)	(3 191)	–	1 387	(1 804)
Net profit/ (loss) from continuing operations	17 141	500	17 641	–	(5 847)	11 794
Depreciation and amortization	2 859	243	3 102	–	6 348	9 450
Share in profit of associates	–	–	–	–	–	–
Assets and liabilities as at 30 June 2015 (unaudited)						
Assets	1 171 299	46 561	1 217 860	–	(56 834)	1 161 026
Liabilities	858 027	9 732	867 759	–	(22 289)	845 470
Other information						
Investments in associates	–	–	–	–	–	–
Capital expenditure	2 158	178	2 336	–	–	2 336

(in PLN thousand)

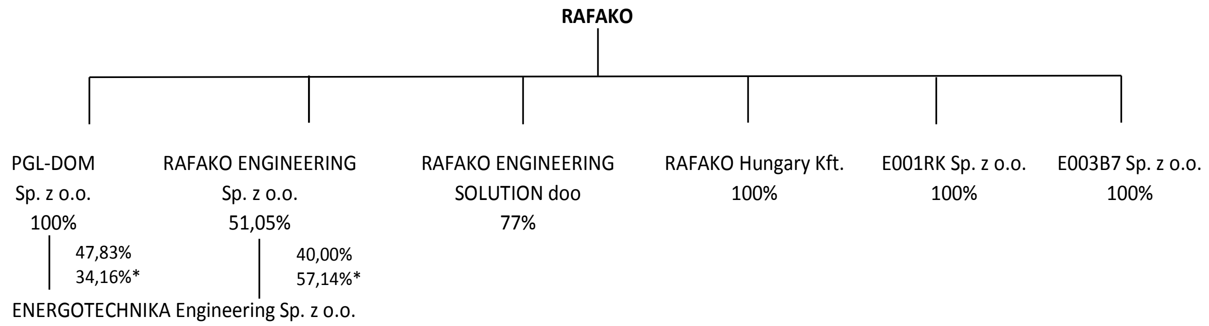
8. Scope of consolidated financial statements

These interim condensed consolidated financial statements incorporate the financial statements of RAFAKO S.A. and its subsidiaries, except for ELWO S.A. w upadłości [in bankruptcy] as the Group no longer controls its operations.

The financial statements of the subsidiaries are prepared for the same reporting period as the financial statements of the Parent, with the use of consistently applied accounting policies. The consolidated financial statements have been prepared in accordance with IAS 27/IFRS 10 *Consolidated and separate financial statements.*

On 30 June 2016, the RAFAKO Group was composed of the Parent and seven subsidiaries operating in the power, services and trade sectors.

As at 30 June 2016, the following subsidiaries were included in the Group's consolidated financial statements.



* % share of voting right at the General Meeting

The table below lists the consolidated RAFAKO Group companies.

Name and registered office	*Principal business activity (according to Polish Classification of Business Activity -PKD)*	*Registry court and number in the National Court Register (KRS)*	*Consolidaton method used*
RAFAKO S.A. Racibórz	Manufacture of steam generators, except for central heating hot water boilers	District Court in Gliwice KRS 34143	-
PGL – DOM Sp. z o.o. Racibórz	Real property activities with own property	District Court in Gliwice KRS 58201	full
RAFAKO ENGINEERING Sp. z o.o. Racibórz	Engineering activities and related technical consultancy	District Court in Gliwice KRS 287033	full
ENERGOTECHNIKA ENGINEERING Sp. z o.o.* Gliwice	Engineering activities and related technical consultancy	District Court in Gliwice KRS 417946	full
RAFAKO ENGINEERING SOLUTION d.o.o. Belgrade	Technological design, construction, industry, and environmental protection consultancy and supervision	Agency for Economic Registers of the Republic of Serbia 20320524	full
RAFAKO Hungary Kft. Budapest	Equipment assembly in the power and chemical industry	Capital District Court in Budapest	full
E001RK Sp. z o.o. Racibórz	Development of building projects; construction of roads, motorways, railways and subways, bridges and tunnels; engineering activities and technical and scientific consultancy; manufacture, repair and maintenance of machinery and equipment; production and transmission of and trading in electricity.	District Court in Gliwice KRS 479758	full
E003B7 Sp. z o.o. Racibórz	Development of construction projects, business consultancy and construction design, engineering and technology.	District Court in Gliwice KRS 486911	full

* subsidiary of RAFAKO ENGINEERING Sp. z o.o. and PGL-DOM Sp. z o. o., indirect subsidiary of RAFAKO S.A.

As at 30 June 2016, the Group's share in the total number of votes in subsidiary companies equated to its share in the equity of those entities, except for the ENERGOTECHNIKA ENGINEERING Sp. z o.o. subsidiary company, in which RAFAKO Engineering Sp. z o.o. holds 40% preference shares (account for 57.14% of votes), and PGL – DOM Sp. z o.o. holds 47.83% shares in that entity, which account for 34.16% of total number of votes.

As at 31 December 2015, the Group's share in the total number of votes in subsidiary companies equated to its share in the equity of those entities, except for the ENERGOTECHNIKA ENGINEERING Sp. z o.o. subsidiary company, in which RAFAKO Engineering Sp. z o.o. holds 40% preference shares (account for 57.14% of votes), and PGL – DOM Sp. z o.o. holds 43.48% shares in that entity, which account for 31.06% of total number of votes.

9. Changes in the structure of the Parent and its consolidated subsidiaries

In the 6-month period ended 30 June 2016 a number of changes occurred in the Group's structure.

On 29 April 2016, the Extraordinary General Shareholder's Meeting of RAFAKO Engineering Sp. z o.o. resolved to increase the company's issued share capital from PLN 1 959 000.00 to PLN 3 555 500 i.e. by PLN 1 596 500.00 by way of creation of 3 193 new shares with a nominal value of PLN 500.00 each. The newly created shares were taken up by the current shareholders of the company in the amount proportionate to the number of shares already held i.e.:

- RAFAKO S.A. took up 1 630 shares with a nominal value of PLN 500 each and a total value of PLN 815 000, which were covered by cash contribution of PLN 4 317 thousand;
- PBG Oil & Gas Sp. z o.o. took up 1 563 shares with a nominal value of PLN 500 each and a total value of PLN 781 500, which were covered by non-monetary contribution with a total value of PLN 4 140 thousand in the form of an organized part of enterprise.

After registration of the increase in RAFAKO Engineering Sp. z o. o.'s issued share capital, the share of RAFAKO S.A. in the issued capital of this entity will not change and will be 51.05%, while the share of PBG oil and gas Sp. z o.o. – will be 48.95%. As at the date of these financial statements, the increase in the issued capital of the subsidiary was not yet registered.

On 30 June 2016, PGL DOM Sp. z o.o., the subsidiary company, acquired from a minority shareholder 100 shares in ENERGOTECHNIKA ENGINEERING Sp. z o.o., the subsidiary, of PLN 137 thousand thus increasing its percentage share in the issued capital of this company to 47.83%.

10. Seasonality and the cyclical nature of the Group's operations

The operations of Group companies are not affected by seasonality or periodic fluctuations that could materially impact the Group's financial performance.

(in PLN thousand)

11. Construction contracts

Revenue from construction contracts is recognised using the percentage of completion method. The percentage of completion is determined as the relation of costs incurred to the total estimated costs necessary to complete the contract.

The table below presents the effects of accounting for construction contracts, including revenue and costs of running contracts as at 30 June 2016, 31 December 2015 and 30 June 2015, as well as gross amount due to customers for contract work and gross amount due from customers for contract work at the dates stated above.

	30 June 2016 (unaudited)	*31 December 2015*	*30 June 2015 (unaudited)*
Contract cost incurred to date (cumulative)	3 529 707	3 260 138	2 487 439
Recognised profits less recognised losses to date (cumulative)	247 242	243 305	180 535
Contract revenue recognised by reference to the contract stage of completion (cumulative)	3 776 949	3 503 443	2 667 974
Progress billings (cumulative)	3 556 558	3 324 100	2 569 543
Gross amount due to customers for contract work (liabilities), of which:	**(97 362)**	**(142 795)**	**(197 336)**
- advances received (liabilities arising from advances received)	(186 229)	(157 126)	(119 798)
- adjustment to advances received arising from amounts due from customers	153 662	56 859	10 888
- gross amount due to customers for contract work	(64 795)	(42 528)	(88 426)
Prepayments relating to accounting for construction contracts, of which:	**197 377**	**233 992**	**251 588**
- gross amount due from customers for contract work (asset)	161 650	194 897	206 039
- contract acquisition cost and other accrued contract costs	35 727	39 095	45 549
Provision for penalties due to late contract performance or failure to meet guaranteed technical specifications	(12 135)	–	–
Provision for losses on construction contracts	(17 991)	(29 885)	(30 070)

The Group analyses each contract for potential losses, which are immediately recognised as an expense in accordance with IAS 11.36. In accordance with IAS 11.11-15, in its accounting for construction contracts the Group recognises estimated penalties arising from delays in the completion of contracts or failure to meet guaranteed technical specifications. Penalty estimates are made based on source documentation concerning delays in contract performance or issues relating to guaranteed specifications, based on contractual assumptions and management's assessment of the risk of such penalties being imposed. The level of the estimated risk depends, to a large extent, on external factors that are partly beyond the Company's control, and may change in subsequent periods.

Under „Contract acquisition cost and other accrued contract costs", the Group recognises accrued expenses on contract acquisition, as well as on bank and insurance guarantees relating to contract execution.

Key contracts executed by the Group

11.1. Opole Project

In February 2012, the Parent, acting as the Leader of the Consortium (RAFAKO S.A., Polimex-Mostostal S.A., Mostostal Warszawa S.A.) executed a PLN 9.4bn contract with PGE Elektrownia Opole S.A. (currently PGE Górnictwo i Energetyka Konwencjonalna S.A. – the „Employer") for „turn-key" design, delivery, construction, assembly, start-up and performance of all related services with respect to a facility consisting of power unit No.5 and No. 6 at Elektrownia Opole, together with equipment and devices as well as all related buildings and structures.

E001RK Sp. z o.o. („SPV-Rafako") was appointed by RAFAKO S.A., the Parent, as the subcontractor in charge of 100% of work and services related to the construction of the power generating units at Elektrownia Opole. SPV-Rafako's remuneration for the performance of the works and services is PLN 3.96bn.

Under the subcontractor agreement between SPV-Rafako and Alstom Power Sp. z o.o., SPV-Rafako appointed Alsom as its subcontractor responsible for 100% of the work and services making up the Company's scope of work under the Opole Project. Alstom took over the entire responsibility towards the Employer for the execution of the contract.

By 30 June 2016, Alstom signed with ENERGOTECHNIKA ENGINEERING Sp. z o.o., the subsidiary, an agreement for delivery of project documentation.

Rules of accounting for the Opole Project:

Presentation of income and expenses under the contract has no effect on the values disclosed in the Group's statement of comprehensive income.

The value of balances under the contract has no effect on the values disclosed in the Group's statement of financial position.

Payments under the contract are made by the Employer directly to Alstom.

11.2. Jaworzno Project

RAFAKO S.A. in Consortium with RAFAKO S.A. (Consortium Leader) and MOSTOSTAL WARSZAWA S.A. has performed the contract „Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of supercritical 800 – 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: Steam boiler, turbine generator set, main building, electrical and I&C systems". The contract value is approx. PLN 5.4bn (VAT inclusive). On 4 August 2013, the project consortium agreement was amended, with RAFAKO S.A. taking over 99.99% of the Project scope deliveries (with Mostostal Warszawa taking the remaining 0.01%); consequently the distribution of consideration due to consortium members changed to reflect the members' actual shares in the work executed under the Project.

Rules of accounting for the Jaworzno Project:

For the purposes of Project execution, a special purpose vehicle (E003B7 Sp. z o.o.) was established, to which its Parent, RAFAKO S.A., subcontracted approximately 88.5% of the Project's scope of work, with RAFAKO S.A. executing directly the remaining 11.5% (with an approximate value of PLN 506m; the scope includes the design of the boiler island, as well as delivery of boiler pressurized parts and a dust removal unit).

For the purposes of the execution of the Project, RAFAKO S.A. and E003B7 Sp. z o.o. concluded agreements with financial institutions, whereby they obtained bank/ insurance guarantees with an aggregate amount of PLN 689m, required for the Project execution; under the same agreements, security for the guarantees was established on the assets of RAFAKO S.A. and E003B7 Sp. z o.o.

As a result of the arrangement with the financial institutions which issued guarantees for the Jaworzno Project, the Parent, RAFAKO S.A., does not plan for E003B7 sp. z o. o. to pay dividend during the term of the guarantee agreements i.e. to April 2020 as this could bring about negative consequences from the institutions that issued guarantees.

The Parent, as the Consortium Leader, issues, to the Employer, invoices for the entire scope of work; payments are made directly to the special purpose vehicle as well as key subcontractors and sub-suppliers. The payment for the scope of work executed by the Parent is made by the special purpose vehicle.

In the consolidated financial statements, the Group recognises total income and expenses related to the Jaworzno Project i.e. for both RAFAKO S.A. and E003B7 Sp. z o.o. The contract is measured in its entirety i.e. with the use of a single margin and single percentage of completion for the Projects' entire scope of work.

In the consolidated financial statements, RAFAKO S.A. offsets Project-related income, expenses and settlements between RAFAKO S.A. and the special purpose vehicle.

12. Types and amounts of items with a significant impact on assets, liabilities, equity, financial performance and cash flows

12.1. Revenue, distribution costs, operating income and expenses and finance income and costs

In the 6-month period ended 30 June 2016, the Group's revenue amounted to PLN 740 564 thousand, up PLN 45 292 thousand compared with the corresponding period in 2015, mainly as a result of higher involvement in the execution of the „Jaworzno" Project (construction of the 910 MW generating unit for the Jaworzno III Power Plant). Revenue increase was recorded both on the domestic and international market.

Cost of sales of products and materials in the first 6 months of 2016 amounted to PLN 685 778 thousand, with the Group's gross profit at PLN 54 786 thousand. The change, compared to the corresponding period in 2015, results mainly from revenue increase with a simultaneous increase in provisions for contractual penalties and in provisions for guarantee liabilities relating to executed sales contracts.

Distribution costs disclosed by the Group mainly include expenses incurred by the cost centres allocated to distribution cost in the cost accounting model (a significant part of which consists of payroll costs and advertising expenses). Such costs also include bidding costs and impairment losses on trade receivables. Distribution costs recognised in the Group's comprehensive income for the period of 6 months ended 2016 of PLN 14 881 thousand were primarily attributable to distribution costs excluding impairment losses on trade receivables of PLN 14 915 thousand.

Administrative expenses for the period of 6 months ended 30 June 2016 amounted to PLN 28 112 thousand. Compared to the prior period, these costs were higher and this higher result was due, among others, to higher costs of legal and consultancy services, including the costs of business support services and costs of restructuring.

Other operating income chiefly included gain on the sale of property, plant and equipment of PLN 228 thousand (30 June 2015: PLN 487 thousand) and contractual penalties and compensations received of PLN 255 thousand (30 June 2015: 609 thousand).

Other operating expenses chiefly included donations and subsidies of PLN 541 thousand (30 June 2015: PLN 430 thousand) and recognized provision for penalty of PLN 700 thousand imposed on RAFAKO S.A. by the Polish Financial Supervision Authority.

In the first 6 months of 2016, the Group's finance income was generated mainly from interest on financial instruments of PLN 587 thousand (30 June 2015: 3 950 thousand), including PLN 541 thousand in interest on security deposits provided in respect of contracts.

Finance costs for the period chiefly included interest on financial instruments of PLN 1 383 thousand (30 June 2015: PLN 2 074 thousand) and interest on employee-related liabilities of PLN 637 thousand, as well as commissions on bank borrowings and bank guarantees and insurance of PLN 543 thousand (30 June 2015: PLN 378 thousand).

(in PLN thousand)

12.2. Income tax

Income tax expense

Main components of income tax expense in the consolidated statement of comprehensive income:

Continuing operations	*3-month period ended 30 June 2016 (unaudited)*	*6-month period ended 30 June 2016 (unaudited)*	*3-month period ended 30 June 2015 (unaudited)*	*6-month period ended 30 June 2015 (unaudited)*
Consolidated statement of profit or loss				
Current tax	1 083	(14 030)	(5 804)	(16 571)
Current income tax expense	1 082	(14 031)	(5 804)	(16 571)
Adjustment to current income tax from previous years	1	1	–	–
Deferred tax	(2 363)	11 253	4 000	10 715
Related to recognition and reversal of temporary differences	(2 363)	11 253	4 000	10 715
Adjustments to deferred tax from previous years	–	–	–	–
Income tax expense in the consolidated statement of profit or loss	**(1 280)**	**(2 777)**	**(1 804)**	**(5 856)**
Deferred tax on other comprehensive income	123	64	40	71
Related to recognition and reversal of temporary differences	123	64	40	71
Adjustment to current tax from previous years	–	–	–	–
Income tax expense recognised in other comprehensive income	**123**	**64**	**40**	**71**

Discontinued operations	*3-month period ended 30 June 2016 (unaudited)*	*6-month period ended 30 June 2016 (unaudited)*	*3-month period ended 30 June 2015 (unaudited)*	*6-month period ended 30 June 2015 (unaudited)*
Consolidated statement of profit or loss				
Current tax	–	–	–	(21)
Current income tax expense	–	–	–	(21)
Adjustment to current income tax from previous years	–	–	–	–
Deferred tax	–	–	–	32
Related to recognition and reversal of temporary differences	–	–	–	32
Adjustment to deferred tax from previous years	–	–	–	–
Income tax expense in the consolidated statement of profit or loss	–	–	–	**11**

(in PLN thousand)

Deferred income tax calculated as at 30 June 2016

Deferred income tax calculated as at 30 June 2016 relates to the following:

	Statement of financial position		*Statement of comprehensive income*	
	30 June 2016 (unaudited)	*31 December 2015*	*6-month period ended 30 June 2016 (unaudited)*	*6-month period ended 30 June 2015 (unaudited)*
- investment reliefs	(3)	(3)	–	1
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(16 166)	(18 811)	2 645	(494)
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1 460	1 447	13	(302)
- difference between tax base and carrying amount of loans and receivables	1 704	1 209	495	771
- different timing of recognition of revenue from sale of goods and services for tax purposes	(62 204)	(43 185)	(19 019)	(2 768)
- difference between tax base and carrying amount of inventories	2 295	1 981	314	127
- provisions	28 378	18 420	9 958	(785)
- difference between tax base and carrying amount of financial liabilities measured at fair value through profit or loss	–	–	–	(17)
- difference between tax base and carrying amount of liabilities under guarantees, factoring and excluded from the scope of IAS 39	2	44	(42)	(7)
- different timing of recognition of cost of sales for tax purposes	73 692	63 105	10 587	13 621
- deferred tax asset relating to tax loss	17 280	974	16 306	(3)
- adjustment to costs of unpaid invoices	11 330	18 475	(7 145)	3 186
- other	1 251	1 537	(286)	(2 512)
Deferred tax expense			**13 826**	**10 818**
Net deferred tax asset/ (liability)	**59 019**	**45 193**		
Deferred tax expense – continuing operations			**11 317**	**10 786**
Net deferred tax asset/ (liability), of which:	**59 019**	**45 193**		
Deferred tax asset	59 204	47 796		
Deferred tax liability	(185)	(94)		
Deferred tax liability – discontinued operations	–	(2 509)		

In the 6-month period ended 30 June 2016, the Parent recognised a deferred tax asset on carry-forward of unused tax losses of PLN 89 911 thousand.

In the 6-month period ended 30 June 2016, other Group companies recognised deferred tax assets on carry-forward of unused tax losses of PLN 1 037 thousand.

12.3. Significant items disclosed in the statement of cash flows

The PLN 110 683 thousand decrease in receivables reported in the consolidated statement of cash flows for the 6-month period ended 30 June 2016 resulted mainly from:

- PLN 91 489 thousand decrease in trade receivables,
- PLN 1 240 thousand decrease in receivables from the state budget (including VAT),
- PLN (11 704) thousand increase in prepayments made,
- PLN 36 973 thousand decrease in security deposits receivable,
- PLN (3 717) thousand increase in disputed receivables,
- PLN (3 276) thousand increase in deferred costs,
- PLN (678) thousand increase in receivables from the Company's Social Fund,
- PLN 356 thousand decrease in other receivables.

For a detailed description of changes in security deposits and disputed receivables in the first 6 months of 2016, see Note 12.13.

The PLN 90 077 thousand decrease in liabilities disclosed in the statement of cash flows was mainly caused by:

- PLN (109 640) thousand decrease in trade payables,
- PLN 1 399 thousand increase in the provision for warranty repairs,
- PLN 1 894 thousand increase in the provision for unused annual leave ,
- PLN 4 290 thousand increase in the balance of provision for delayed cost collection,
- PLN 9 305 thousand set-off of income tax liabilities,
- PLN (782) thousand decrease in the provision for bonuses,
- PLN 3 457 thousand increase in other liabilities.

The PLN 8 577 thousand change in accruals and deferrals relating to accounting for construction contracts as shown in the statement of cash flows was mainly caused by:

- PLN 36 615 thousand decrease in receivables relating to accounting for construction contracts and in gross amount due from customers for contract work,
- PLN (45 433) thousand decrease in gross amount due to customers for contract work, of which:
- PLN (67 700) thousand decrease in prepayments,
- PLN 241 thousand increase in provisions for contract work.

The PLN 67 700 thousand change in prepayments resulted mainly from the recognition of part of prepayments under revenues in accordance with the methodology of accounting for contract costs (IAS 11).

The amount of PLN 3 440 thousand related to the acquisition of property, plant and equipment and intangible assets comprises capital expenditure on property, plant and equipment of PLN 2 702 thousand and intangible assets of PLN 738 thousand.

The PLN 40 016 thousand increase in borrowings disclosed under financing activities in the statement of cash flows was attributable to an overdraft facility contracted with PKO BP S.A. The Company's cash from financing activities was also affected by interest paid on bank borrowing at PKO BP S.A. in the amount of PLN 1 106 thousand.

(in PLN thousand)

12.4. Property, plant and equipment

30 June 2016 *(unaudited)*	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Other*	*Assets under construction*	*Total*
Net carrying amount as at 1 January 2016	**23 776**	**91 838**	**56 485**	**8 389**	**787**	**2 164**	**183 439**
Transfers from assets under construction	–	373	1 595	218	–	(2 186)	–
Acquisitions	–	–	199	2 014	38	1 455	3 706
Liquidation/ sale	(3)	(49)	(137)	(127)	–	–	(316)
Exchange differences on translating foreign operations	–	–	23	(20)	1	–	4
Depreciation charge for the period	–	(1 419)	(3 639)	(955)	(132)	–	(6 145)
Revaluation for the period	–	–	–	27	–	–	27
Acquisition of a subsidiary	–	–	–	86	13	–	99
Other, including reclassification of property, plant and equipment to/ from assets held for sale	–	(35)	107	(33)	–	–	39
Net carrying amount as at 30 June 2016 *(unaudited)*	**23 773**	**90 708**	**54 633**	**9 599**	**707**	**1 433**	**180 853**

*assets representing security for Group's liabilities as at the reporting date are presented in Note 12.15.1.

30 June 2015 *(unaudited)*	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Other*	*Assets under construction*	*Total*
Net carrying amount as at 1 January 2015	**23 773**	**89 529**	**46 140**	**6 370**	**358**	**6 029**	**172 199**
Transfers from assets under construction	–	1 504	4 761	55	–	(6 320)	–
Acquisitions	3	97	853	2 358	77	4 849	8 237
Liquidation/ sale	(3)	(44)	(17)	(386)	–	–	(450)
Exchange differences on translating foreign operations	–	–	(1)	(1)	–	–	(2)
Depreciation charge for the period	–	(1 410)	(3 383)	(602)	(35)	–	(5 430)
Loss of control of a subsidiary	–	(410)	(110)	(34)	–	(194)	(748)
Other, including reclassification of property, plant and equipment to/ from assets held for sale	–	(45)	–	231	(13)	–	173
Net carrying amount as at 30 June 2015 *(unaudited)*	**23 773**	**89 221**	**48 243**	**7 991**	**387**	**4 364**	**173 979**

12.5. Purchase and sale of property, plant and equipment and intangible assets

	6-month period ended 30 June 2016 (unaudited)	*6-month period ended 30 June 2015 (unaudited)*
Purchase of property, plant and equipment and intangible assets*	9 044	8 543
Proceeds from sale of property, plant and equipment and intangible assets	707	726

* capital expenditure incurred in the period to purchase property, plant and equipment, as shown in the table of changes in property, plant and equipment, and capital expenditure to purchase intangible assets

The Group's capital expenditure on property, plant and equipment involved chiefly expenditure for the purchase of production plant and equipment, motor vehicles and computer hardware. The expenditure was financed with internally generated funds.

12.6. Goodwill

In the first 6 months of 2016, a change was recorded in the goodwill, which as at 30 June 2016 was PLN 9 166 thousand. Change in the value of goodwill resulted from the assumption of control over an organized part of enterprise by the subsidiary company, RAFAKO Engineering Sp. z o.o., as a result of which the RAFAKO Group reported goodwill in the amount of PLN 4 041 thousand.

	Fair value (in PLN thousand)
Value of property, plant and equipment	86
Value of low-cost assets	13
Total fair value of acquired net assets	99
Total cost of acquisition	4 140
Goodwill recognised on acquisition	4 041

For details of the transaction, see Note 9 to these interim condensed consolidated financial statements.

12.7. Shares in other entities

	30 June 2016 (unaudited)	*31 December 2015*
Shares in other listed companies	208	210
Shares in other non-listed companies	19	19
	227	**229**

*shares pledged as security for Group's liabilities at the reporting date are presented in Note 12.15.3.

(in PLN thousand)

12.8. Long-term trade receivables, other receivables and prepayments

	30 June 2016 (unaudited)	*31 December 2015*
Trade receivables, of which:	35 725	35 409
Trade receivables from related entities	–	–
Trade receivables from other entities	35 725	35 409
Other receivables and prepayments, of which:	243	239
Prepayments under bank and insurance guarantees	–	–
Security deposits	243	239
Total receivables (net)	**35 968**	**35 648**
Impairment loss on receivables	–	–
Gross receivables	**35 968**	**35 648**

*trade receivables pledged as security for Group's liabilities at the reporting date are presented in Note 12.15.5.

12.9. Other long-term financial assets

	30 June 2016 (unaudited)	*31 December 2015*
Long-term loans granted	–	–
Long-term deposits, of which:	–	–
- deposits securing bank guarantees provided to the Group	–	–
Other long-term financial assets, of which:	30 356	29 900
Receivables from PBG S.A. w upadłości układowej [in voluntary arrangement] related to the return of shares in ENERGOMONTAŻ – POŁUDNIE S.A.	25 234	24 854
Receivables from PBG S.A. w upadłości układowej [in voluntary arrangement] under the loan advanced to HYDROBUDOWA S.A. w upadłości likwidacyjnej [in bankruptcy by liquidation]	5 122	5 046
	30 356	**29 900**

In the 6-month period ended 30 June 2016, the Group re-measured the receivable from the return of shares to ENERGOMONTAŻ – POŁUDNIE S.A. and the receivable under the loan advanced to HYDROBUDOWA S.A. due to changes in estimates and assumptions, as described in detail in Note 24.

The change in the receivables compared to the amount disclosed as at 31 December 2015 results from the re-measurement of the receivables at amortised cost, taking into account the assumptions and estimates presented in Note 6. In the period of 6 months ended 30 June 2016, based on the adopted assumptions, the Group recognised, under other financial assets, the current portion of the receivable from the return transfer of shares in ENERGOMONTAŻ POŁUDNIE and the receivable under the loan advanced to HYDROBUDOWA S.A., as described in Note 12.11.

12.10. Inventories

	30 June 2016 (unaudited)	*31 December 2015*
Materials (at net realisable value)	15 117	18 817
At cost	27 196	29 169
At net realisable value	15 117	18 817
Total inventories, at the lower of cost and net realisable value	**15 117**	**18 817**

* inventories pledged as security for Group's liabilities at the reporting date are presented in Note 12.15.4.

(in PLN thousand)

Inventory write-downs

	6-month period ended 30 June 2016 (unaudited)	*6-month period ended 30 June 2015 (unaudited)*
At the beginning of the period	(10 352)	(7 793)
Write-down recognised	(2 355)	(789)
Write-down reversed	628	170
Transfer to assets held for sale	–	–
Balance at the end of the period	**(12 079)**	**(8 412)**

12.11. Other short-term financial assets

	30 June 2016 (unaudited)	*31 December 2015*
Other short-term financial assets, of which:	–	–
Advance payment to acquire the right to the loan	10 500	10 500
Impairment write-down against advance payment to acquire the right to the loan	(10 500)	(10 500)
Receivables from PBG S.A. w upadłości układowej [in voluntary arrangement] related to the return of shares in ENERGOMONTAŻ – POŁUDNIE S.A.	4 943	4 943
Receivables from PBG S.A. w upadłości układowej [in voluntary arrangement] under the loan advanced to HYDROBUDOWA S.A. w upadłości likwidacyjnej [in bankruptcy by liquidation]	1 003	1 003
	5 946	**5 946**

In the 6-month period ended 30 June 2016, the Group re-measured the receivable from the return of shares to ENERGOMONTAŻ – POŁUDNIE S.A. and the receivable under the loan advanced to HYDROBUDOWA S.A. due to changes in estimates and assumptions, as described in detail in Note 24.

The change in the receivables compared to the amount disclosed as at 31 December 2015 results from the re-measurement of the receivables at amortised cost, taking into account the assumptions and estimates presented in Note 6. In the period of 6 months ended 30 June 2016, based on the adopted assumptions, the Group recognised, under other financial assets, the current portion of the receivable from the return transfer of shares in ENERGOMONTAŻ POŁUDNIE and the receivable under the loan advanced to HYDROBUDOWA S.A., as described in Note 12.11.

On 18 April 2012, the Parent and Olenia Ltd entered into a preliminary agreement for the purchase of 50% of shares in Bioelektrownia Szarlej sp. z o.o. and assignment of rights to receivables in the form of a loan granted to that company. The total value of a prepayment paid by the Parent under the agreement was PLN 16 176 thousand (of which PLN 5 676 thousand was paid for shares recognised as other non-financial assets and PLN 10 500 thousand - as other financial assets). Bioelektrownia Szarlej sp. z o.o. is a special purpose vehicle established for the purpose of construction of biogas power plant, to be financed from internally-generated funds, a loan from investors, and a subsidy awarded to the project. Bioelektrownia Szarlej sp. z o.o. terminated its agreement with the contractor, which caused delays in the performance of work and termination of the project subsidy agreement. Bioelektrownia Szarley Sp. z o.o.'s efforts to resume the project were unsuccessful. Due to the status of the project as described above, the Parent's Management Board concluded that the risk of non-recoverability of the assets is significant and upheld its decision to recognise an impairment loss for the full value of the project i.e. PLN 16 176 thousand.

(in PLN thousand)

12.12. Cash and cash equivalents

	30 June 2016 (unaudited)	*31 December 2015*	*30 June 2015 (unaudited)*
Cash on hand and cash at bank	225 426	114 051	31 447
Short-term deposits for up to 3 months, of which:	24 293	83 210	3 566
- deposits securing contingent liabilities	–	–	–
	249 719	**197 261**	**35 013**

Cash at bank earns interest at variable rates linked to the interest rates of deposits. Short-term deposits, classified as cash, are placed for various periods, usually of one day to one month, depending on Group companies' immediate cash requirements and earn interest at rates agreed with the bank.

Group companies carry restricted cash, including cash from subsidies (held in separate bank accounts), which may be used to make payments under current contracts.

As at 30 June 2016, reported under cash line item was the cash of restricted use of PLN 213.7m (31 December 2016: PLN 95.1m) which represents cash of the subsidiary company, E003B7 sp. z o.o., assigned for Jaworzno Project performance; from the point of view of the RAFAKO Group this cash is of restricted use due to formal arrangements with the institutions financing this Project.

Dividend from E003B7 Sp. z o.o. to the sole shareholder, RAFAKO S.A., could be paid with no negative consequences from the financing institutions when the period for which guarantees issued by those institutions has lapsed; for details, see Note 11.2.

12.13. Short-term trade receivables, other receivables and prepayments

	30 June 2016 (unaudited)	*31 December 2015*
Trade receivables, of which:	185 592	277 397
Trade receivables from related entities	3 675	17 581
Trade receivables from other entities	181 917	259 816
Current tax asset	14 011	21 137
Other receivables and prepayments, of which:	163 786	183 232
Receivables under prepayments made	46 173	34 469
Receivables from the state budget	21 349	22 589
Settlement of property insurance costs	240	800
Settlements with the Company's Social Fund	979	301
Disputed receivables	4 017	300
Prepaid expenses	4 495	1 219
Security deposits	85 757	122 734
Other	776	820
Trade receivables (net)	**363 389**	**481 766**
Impairment write-down against receivables	32 584	32 393
Gross receivables	**395 973**	**514 159**

*trade receivables pledged as security for Group's liabilities as at the reporting date are presented in Note 12.15.5.

Receivables from the state budget include chiefly domestic and foreign VAT receivable.

Trade receivables bear no interest and are usually payable within 30 days. However, in the case of some trading partners, the final due dates for payments are set by way of individual arrangements and fall between one and three months of the invoice date.

The Group follows the policy of selling its products exclusively to customers who have successfully passed a credit verification procedure. As a result, the Management believes there is no additional credit risk that would exceed the uncollectible debt allowance made for trade receivables.

Short-term trade receivables of PLN 185 592 thousand recognised in the statement of financial position as at 30 June 2016 relate to trading contracts with domestic and foreign contractors:

The PLN 36 973 thousand change in security deposit receivables as at 30 June 2016 was caused by the following business operations:

- return of cash security deposit under the contract for construction of oil-gas steam boiler; in the period of 6 months ended 30 June 2016, cash deposit returned amounted to PLN 9 080 thousand;
- payment of cash security deposit under the contract for a component replacement at B2 boiler's furnace chamber; in the period of 6 months ended 30 June 2016, cash deposit paid amounted to PLN7 413 thousand;
- payment of cash security deposit due to participation in public procurement procedure for the award of a public contract for construction of a new power plant in Vilnius; in the period of 6 months ended 30 June 2016, cash deposit paid amounted to PLN 13 277 thousand;
- return of cash security deposit under the contract for construction of the 910 MW supercritical power unit; in the period of 6 months ended 30 June 2016, cash deposit returned amounted to PLN 40 000 thousand.

A significant item of other receivables were prepayments with a total value of PLN 46 173 thousand as at 30 June 2016 which included:

- PLN 7 671 thousand prepayment for the contract for design, assembly and delivery, under contracted delivery blocks, of highly flexible pipeline together with fittings and ancillary systems, as well as selection of primary attachments;
- PLN 7 124 thousand prepayment for the contract for delivery and assembly of steel construction of engine-, boiler- and bunker-room building;
- PLN 4 914 thousand prepayment for the contract for a component replacement at B2 boiler's furnace chamber;
- PLN 4 828 thousand prepayment for the contract for delivery, pre-assembly and assembly of the SCR reactor, and for delivery of containers and coal bunkers;
- PLN 4 214 thousand prepayment for the contract for delivery and assembly of flue gas denitrification system;
- PLN 4 134 thousand prepayment for the contract for construction of a housing for catalytic de-nitriding system or the SCR for the OP boiler;
- PLN 3 599 thousand prepayment for the contract for delivery and assembly of a steel construction for engine- and bunker-room, LUVO and SCR, assembly of "coal" building, lifting and arrangement of steam-blowers;
- PLN 2 161 thousand prepayment for the contract for development of membrane walls for the OP-380b boiler.

(in PLN thousand)

12.14. Impairment losses on consolidated assets

	*Shares**	*Other financial assets*	*Other non-financial assets*	*Inventories***	*Receivables****
1 January 2016	(24 361)	(164 557)	(5 676)	(10 352)	(32 393)
Recognition	(12)	–	–	(2 355)	(588)
Utilisation/ reversal	10	154 057	–	628	397
30 June 2016 *(unaudited)*	**(24 363)**	**(10 500)**	**(5 676)**	**(12 079)**	**(32 584)**
1 January 2015	(24 230)	(164 557)	(5 676)	(7 793)	(40 862)
Recognition	(49)	–	–	(789)	(1 260)
Utilisation/ reversal	–	–	–	170	4 610
30 June 2015 *(unaudited)*	**(24 279)**	**(164 557)**	**(5 676)**	**(8 412)**	**(37 512)**

* impairment losses on shares in entities declared bankrupt and in connection with re-measurement of shares in companies which are in a company voluntary arrangement process

** recognition and reversal of inventory impairment write-downs are charged to cost of products and services sold

*** impairment write-downs against short- and long-term trade and other receivables, including contractual penalties

In the period of 6 months ended 30 June 2016, in connection with the arrangement with creditors of PBG S.A. w upadłości układowej [in voluntary arrangement] becoming legally valid, the Parent utilised the impairment write-downs against receivables from entities in voluntary arrangement in the amount of PLN 154 057 thousand.

12.15. Assets pledged as security for Group's liabilities

12.15.1. Fixed assets pledged as security

As at 30 June 2016, the value of fixed assets pledged as security for the Parent's liabilities was PLN 143 493 thousand. These fixed assets serve as security for the Parent's liabilities under Multi-Purpose Facility Agreement with PKO BP S.A. (a mortgage was established for a total amount of PLN 300m on the properties owned or leased by RAFAKO S.A. under perpetual usufruct, except for the residential property; a first-ranking registered pledge was established on set of movables and rights) and for the financial obligations of RAFAKO S.A. to BGK S.A., PKO BP S.A., mBank S.A. and PZU S.A. under the Guarantee Agreement concluded to provide guarantee for the E003B7 Sp. z o.o.'s liabilities arising from Guarantee Agreement on guarantees issued to TAURON Wytwarzanie S.A. in connection with the 910 MW Jaworzno III Project performance (second-ranking registered pledge on set of movables and rights).

	30 June 2016 (unaudited)	*31 December 2015*
Fixed assets under mortgage security, of which:	91 349	92 225
land	9 273	9 273
buildings and structures	82 076	82 952
Fixed assets under registered pledge, of which:	52 144	53 566
plant and machinery	50 469	50 793
vehicles	1 675	2 773
	143 493	**145 791***

*the reported amount includes PLN 45 thousand of fixed assets classified as held for sale (31 December 2015: PLN 119 thousand)

12.15.2. Intangible assets pledged as security

As at 30 June 2016, the value of intangible assets pledged as security for the Parent's liabilities was PLN 10 638 thousand (31 December 2015: PLN 11 449 thousand). These intangible assets serve as security for the Parent's liabilities under Multi-Purpose Facility Agreement with PKO BP S.A. (first-ranking registered pledge on set of movables and rights) and for the financial obligations of RAFAKO S.A. to BGK S.A., PKO BP S.A., mBank S.A. and PZU S.A. under the Guarantee Agreement concluded to provide guarantee for the E003B7 Sp. z o.o.'s liabilities arising from Guarantee Agreement on guarantees issued to TAURON Wytwarzanie S.A. in connection with the 910 MW Jaworzno III Project performance (second-ranking registered pledge on set of movables and rights).

12.15.3. Shares pledged as security

As at 30 June 2016, shares with a value of PLN 29 576 thousand (31 December 2015: PLN 25 261 thousand) serve as security for the Parent's liabilities under Multi-Purpose Facility Agreement with PKO BP S.A. (first-ranking registered pledge on set of movables and rights) and for the financial obligations of RAFAKO S.A. to BGK S.A., PKO BP S.A., mBank S.A. and PZU S.A. under the Guarantee Agreement concluded to provide guarantee for the E003B7 Sp. z o.o.'s liabilities arising from Guarantee Agreement on guarantees issued to TAURON Wytwarzanie S.A. in connection with the 910 MW Jaworzno III Project performance (second-ranking registered pledge on set of movables and rights, registered pledge and financial pledge on shares in E003B7 Sp. z o.o.).

12.15.4. Inventories pledged as security

As at 30 June 2016, the value of inventories pledged as security for the Parent's liabilities was PLN 14 045 thousand (31 December 2015: PLN 18,726 thousand). These inventories serve as security for the Parent's liabilities under Multi-Purpose Facility Agreement with PKO BP S.A. (first-ranking registered pledge on set of movables and rights) and for the financial obligations of RAFAKO S.A. to BGK S.A., PKO BP S.A., mBank S.A. and PZU S.A. under the Guarantee Agreement concluded to provide guarantee for the E003B7 Sp. z o.o.'s liabilities arising from Guarantee Agreement on guarantees issued to TAURON Wytwarzanie S.A. in connection with the 910 MW Jaworzno III Project performance (second-ranking registered pledge on set of movables and rights).

12.15.5. Trade receivables pledged as security

Trade receivables with a carrying amount of PLN 26 076 thousand served as security for guarantees and loan collaterals as at 30 June 2016 (31 December 2015: PLN 26 137 thousand).

12.16. Issued capital

In the 6-month period ended 30 June 2016 the issued capital of the Parent did not change and as at 30 June 2016 was PLN 169 864 thousand

Issued capital	*Number of shares pcs.*	*Value of shares PLN '000*
Series A shares	900 000	1 800
Series B shares	2 100 000	4 200
Series C shares	300 000	600
Series D shares	1 200 000	2 400
Series E shares	1 500 000	3 000
Series F shares	3 000 000	6 000
Series G shares	330 000	660
Series H shares	8 070 000	16 140
Series I shares	52 200 000	104 400
Series J shares	15 331 998	30 664
	84 931 998	**169 864**

12.17. Par value per share

All shares have a par value of PLN 2.00 and have been taken up for cash contribution.

12.18. Shareholders' rights

Shares of all series rank *pari passu* as regards dividend payment and return on equity.

12.19. Share premium

The share premium of PLN 77 947 thousand comprises the excess of issue price over the par value of the shares. On 15 May 2000, RAFAKO S.A.'s General Meeting resolved to allocate PLN 41 169 thousand to cover accumulated losses brought forward from previous years. In addition, in 2015 following recognition of PLN 58 562 thousand of share premium from the issue of J series shares, reduced by issue costs, the share premium amounted to PLN 95 340 thousand (31 December 2015: 95 340 thousand).

12.20. Reserve capital

Reserve capital has been created from statutorily required transfers from profits generated by the Group in previous years and from profit appropriation in excess of statutory amounts. In the period of 6 months ended 30 June 2016, following the transfer of the 2015 earnings to reserve capital, reserve capital increased and as at 30 June 2016 amounted to PLN 140 583 thousand (31 December 2015: PLN 112 715 thousand).

12.21. Translation reserve (Cumulative translation differences)

The balance of translation reserve is adjusted for exchange differences arising from translation of the financial statements of a foreign subsidiary and of a foreign branch of the Parent. As at 30 June 2016, translation reserve (cumulative translation differences) amounted to PLN 136 thousand (31 December 2015: minus PLN 41 thousand).

12.22. Retained earnings and dividends paid

Following the recognition of the net profit for the 6-month period ended 30 June 2016 in the amount of PLN 7 528 thousand, recognition of actuarial gains/ losses in the amount of PLN 280 thousand and distribution of prior year profits in the amount of PLN 27 868 thousand, as at 30 June 2016 the value of the retained earnings of the Group amounted to PLN 26 593 thousand (31 December 2015: PLN 47 213 thousand).

In the 6-month period ended 30 June 2016, Group companies did not pay any dividends.

(in PLN thousand)

12.23. Earnings/ (loss) per share

Basic earnings/ (loss) per share is calculated as the quotient of net consolidated profit/ (loss) for the given accounting period attributable to ordinary shareholders of the Parent and the weighted average number of ordinary shares of the Parent outstanding during the period.

Presented below is data on the net profit/ (loss) and shares used to calculate basic earnings/ (loss) per share:

	6-month period ended 30 June 2016 (unaudited)	*6-month period ended 30 June 2015 (unaudited)*
Net profit/ (loss) from continuing operations	7 159	14 081
Profit/ (loss) from discontinued operations	–	(55)
Net profit/ (loss)	7 159	14 026
Net profit/ (loss) attributable to ordinary shareholders, used to calculate earnings/ (loss) per share	**7 528**	**13 925**
Weighted average number of outstanding ordinary shares, used to calculate basic earnings/ (loss) per share	84 931 998	69 600 000
Dilutive effect:	–	–
Share options	–	–
Redeemable preference shares	–	–
Adjusted weighted average number of ordinary shares used to calculate diluted earnings/ (loss) per share	84 931 998	69 600 000
Earnings/ (loss) per share, PLN		
– basic earnings from profit attributable to ordinary shareholders for the period	0.09	0.20
Earnings/ (loss) per share from discontinued operations, PLN		
– basic earnings from profit attributable to ordinary shareholders for the period	0.00	0.00

The weighted average number of outstanding ordinary shares used to calculate basic and diluted earnings per share from discontinued operations is presented in the table above. The table below presents the profit/ (loss) amounts used to calculate earnings per share from discontinued operations:

	6-month period ended 30 June 2016 (unaudited)	*6-month period ended 30 June 2015 (unaudited)*
Profit/ (loss) from discontinued operations	–	(55)
Net profit/ (loss) from discontinued operations, attributable to ordinary shareholders used to calculate earnings per share	–	(45)

In the period of 6 months ended 30 June 2016, the Parent did not issue new shares.

The Group does not present diluted earnings per share for the 6-month period ended 30 June 2016 as it does not have any dilutive financial instruments.

(in PLN thousand)

12.24. Post-employment and other employee benefits

Based on a valuation forecast made at the end of the accounting period by a professional actuary, the Group recognises a provision for the present value of its obligation related to payment of retirement benefits, jubilee bonuses and contributions to the Company's Social Fund. The amount of this provision and a reconciliation showing movements in the provision during the accounting period is presented in the table below:

	30 June 2016 (unaudited)	*31 December 2015*
As at 1 January	25 556	26 803
Interest expense	637	670
Current service costs	266	485
Actuarial gains/ (losses)	344	314
Benefits paid	(909)	(2 716)
Closing balance	**25 894**	**25 556**
Long-term provisions	23 877	23 552
Short-term provisions	2 017	2 004

The main assumptions adopted for the valuation of employee benefits as at the end of the reporting period are as follows:

	30 June 2016 (unaudited)	*31 December 2015*
Discount rate (%)	2.8	2.8
Expected inflation rate (%)*	–	–
Employee turnover rate	5	5
Expected salary growth rate (%)**	2	2

* No data in the actuarial report
** 2% in 2016 and in the subsequent years

12.25. Long-term trade and other payables

	30 June 2016 (unaudited)	*31 December 2015*
Trade payables		
Trade payables to related entities	–	55
Trade payables to other entities	26 180	34 789
	26 180	**34 844**
Financial liabilities		
Finance lease liabilities	3 874	3 686
	3 874	**3 686**
Other liabilities		
Unpaid bonus accrual	503	311
Capital commitments	434	852
Provision for warranty repairs	5 873	4 325
	6 810	**5 488**

(in PLN thousand)

12.26. Short-term provisions, trade and other payables

	30 June 2016 (unaudited)	*31 December 2015*
Trade payables		
Trade payables to related entities	14 473	6 330
Trade payables to other entities	285 393	394 512
	299 866	**400 842**
Capital commitments	2 248	2 663
	2 248	**2 663**

	30 June 2016 (unaudited)	31 December 2015
Other liabilities		
VAT	1 517	1 783
Personal income tax	2 875	2 557
Social security liabilities	9 460	9 001
Amounts payable to the Tax Office	148	–
Other taxes, customs duties and insurance payable	190	103
Settlements with the Company's Social Fund	670	–
Salaries and wages payable	9 151	8 572
Provision for unused annual leave	5 553	3 659
Unpaid bonus accrual	10 263	11 237
Provision for warranty repairs	7 451	7 600
Provision for un-invoiced services and materials	9 595	5 305
Provision for audit fee	322	227
Other short-term accruals and deferred income	6 795	4 855
Security deposits	176	144
Other amounts payable to employees	620	279
Provision for future costs	7 302	7 000
Other	324	1 716
	72 412	**64 038**
Other financial liabilities		
Finance lease liabilities	2 171	1 542
Other non-financial liabilities	171	–
	2 342	**1 542**

13. Financial risk management objectives and policies

The objectives and policies of financial risk management have not changed compared to those published in the most recent consolidated annual financial statements for 2015.

(in PLN thousand)

14. Financial instruments

The following tables show the carrying amounts of various classes and categories of financial instruments as at 30 June 2016 and 31 December 2015:

	Carrying amount	
	30 June 2016 (unaudited)	*31 December 2015*
Assets at fair value through profit or loss	–	–
Investment fund units	–	–
Derivative financial instruments	–	–
Available-for-sale financial assets	**208**	**210**
Long-term shareholdings	208	210
Loans and receivables	**347 465**	**471 839**
Trade receivables	221 317	312 806
Other receivables	89 794	123 037
Loans granted	52	80
Long-term deposits	–	–
Short-term deposits	–	70
Other long-term financial assets	30 356	29 900
Other short-term financial assets	5 946	5 946
Cash and cash equivalents	**249 719**	197 261
	597 392	**669 310**

	Carrying amount	
	30 June 2016 (unaudited)	*31 December 2015*
Financial liabilities at fair value through profit or loss	–	–
Derivative financial instruments	–	–
Financial liabilities at amortised cost	**478 446**	**548 409**
Loans and borrowings	149 718	109 208
Trade payables (including capital commitments)	328 728	439 201
Other financial liabilities	–	–
Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**6 216**	**5 228**
Liabilities under leases and lease agreements with a purchase option	6 216	5 228
	484 662	**553 637**

15. Derivative financial instruments

As at 30 June 2016, the Group did not carry any open currency forward contracts or any other derivative instruments.

Group companies do not apply hedge accounting, but the transactions are not speculative and their purpose is to effectively hedge foreign currency purchase/ sale contracts. As a result, the Group recognizes the effects of fair-value measurement/ realization of such instruments as exchange differences i.e. under operating activities (income and expenses).

(in PLN thousand)

16. Provision for costs

16.1. Provision for penalties due to late contract performance or failure to meet technical specifications guaranteed under construction contracts

In the period of 6 months ended 30 June 2016, the RAFAKO Group reviewed the amounts of provisions for costs due to late performance of contracts recognised for several ongoing contracts. Using the most recent data on running contracts and based on settlements of completed contracts, the Management Board of the Parent determined that indicators were identified to recognize provisions for costs due to late performance of contracts in the amount of PLN 12 135 thousand .

16.2. Change in provisions, liabilities and accruals and deferred income in the Group's consolidated statement of financial position

	*Provision for expected losses on contracts**	*Provision for jubilee bonuses and retirement benefits*	*Provision for unused annual leave***	*Provision for warranty repairs***	*Provision for costs of contractual penalties*	*Provision for bonuses ***	*Provision for other costs ***	*Provision for costs under bank guarantees and sureties issued ***	*Other provisions***
1 January 2016	29 885	25 556	3 659	11 925	–	11 548	7 000	–	227
Provision recognised	1 368	338	1 947	5 848	12 135	4 700	917	–	322
Provision reversed/ utilised	(13 262)	–	(53)	(4 449)	–	(5 482)	(615)	–	(227)
30 June 2016 *(unaudited)*	**17 991**	**25 894**	**5 553**	**13 324**	**12 135**	**10 766**	**7 302**	–	**322**
1 January 2015	30 321	26 803	3 780	11 848	1 946	9 454	5 667	745	113
Provision recognised	17 483	827	1 881	1 581	–	1 356	20	66	219
Provision reversed/ utilised	(17 734)	–	(116)	(5 249)	(1 946)	(2 852)	(700)	–	(113)
30 June 2015 *(unaudited)*	**30 070**	**27 630**	**5 545**	**8 180**	–	**7 958**	**4 987**	**811**	**219**

* amounts resulting from accounting for construction contracts described in Note 11.
** provisions presented in the statement of financial position as other liabilities

(in PLN thousand)

17. Loans and borrowings

In the 6-month period ended 30 June 2016, liabilities under bank loans and borrowings of Group companies amounted to PLN 149 718 thousand.

Short-term loans and borrowings	*Security/ collateral*	*Other*	*Currency*	*Effective interest rate*	*Maturity date*	*Liabilities under bank loans and borrowings*	
						30 Jun 2016 (unaudited)	*31 Dec 2015*
Short-term loans:							
PKO BP S.A.	Blank promissory note with promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge on set of movables and rights comprising the entire business of the Company.	Revolving overdraft facility in the amount of PLN 100m***	PLN	1M WIBOR + margin	30.06.2017****	100 203	109 208
PKO BP S.A.	registered pledge on set of movables and rights comprising the entire business of RAFAKO, all receivables that may arise under Limit granted.	Revolving working capital loan in credit account in the amount of PLN 50m	PLN	1M WIBOR + margin	30.06.2017****	49 515	–
Podkarpacki Bank Spółdzielczy Oddział Dębica	Blank promissory note, authorisation to property mortgage account, assignment of receivables under insurance policy.	Overdraft facility	PLN		08.09.2016	–	–
						149 718	**109 208**

* the facility is collateralised by receivables under contracts performed by the Company;
** As at the date of these interim condensed consolidated financial statements, the Parent established mortgages on its properties (other than flats and residential buildings) for a total amount of PLN 300m, serving as additional security for the credit facility from PKO BP S.A.;
*** As at the date of these interim condensed consolidated financial statements, in accordance with the annex of 30 June 2016 to the credit facility agreement, the multi-credit facility limit amounted to PLN 200 000 000.00, including an overdraft facility of up to PLN 100 000 000.00;
**** As at the date of these interim condensed consolidated financial statements, in accordance with the annex of 30 June 2016 to the credit facility agreement, the term of facility availability and its maturity date were extended until 30 June2017.

The RAFAKO Group's credit standing should be analysed taking into account the information included in Note 2 relating to the Group's ability to continue as a going concern.

(in PLN thousand)

18. Capital management

The purpose of capital management by the Group is to ensure a high level of security for its operations while minimising the costs of raising financing. To ensure stable development, the Group needs to maintain an appropriate relationship between its own and external capital and effectively manage free cash. The Group analyses its capital structure using the capitalisation ratio (which measures the share of the Group's equity in its total financing sources).

	30 June 2016 (unaudited)	*31 December 2015*
Share of debt in equity		
Equity attributable to equity holders of the Parent	432 516	425 091
External capital (bank loan and borrowings)	149 718	109 208
Total equity and liabilities	1 158 656	1 251 218
Capitalisation ratio	**0.37**	**0.34**

19. Issue, redemption and repayment of debt and equity securities

In the 6-month period ended 30 June 2016, Group companies did not issue, redeem or repay debt or equity securities.

20. Dividends paid or declared

In the 6-month period ended 30 June 2016, Group companies did not pay dividends. In accordance with the applicable laws, dividends may only be paid out of the profit of individual companies, and not on the basis of consolidated net earnings of the Group.

21. Capital commitments

As at 30 June 2016, RAFAKO Group companies had commitments related to purchase of property, plant and equipment of PLN 2 682 thousand. Group companies had also signed agreements envisaging capital expenditure to be made in 2016, which was not disclosed in the books of account at the end of the reporting period for a total amount of PLN 178 thousand. The agreements related mainly to capital expenditure on production plant and equipment.

22. Movements in off-balance sheet items, information on loan sureties and guarantees issued

	30 June 2016 (unaudited)	*31 December 2015*
Receivables under bank guarantees received mainly as performance bond for contracts, of which:	657 644	585 065
- from related parties	–	–
Receivables under sureties received, of which:	–	7 600
- from related parties	–	–
Promissory notes received as security, of which:	22 351	22 160
- from related parties	8 468	8 134
Letters of credit	–	–
	679 995	**614 825**

(in PLN thousand)

	30 June 2016 (unaudited)	*31 December 2015*
Commitments under bank guarantees issued mainly as performance bond for contracts, of which:	203 712	201 181
- to related parties	–	–
Liabilities under sureties, of which:	1 394 668	1 046 000
- to related parties	–	–
Promissory notes issued as security, of which:	29 870	28 798
- to related parties	–	–
Letters of credit	–	–
	1 628 250	**1 275 979**

In the 6-month period ended 30 June 2016, the RAFAKO Group recorded a PLN 352 271 thousand increase in contingent liabilities, which resulted mainly from an increase in liabilities under issued sureties. In the period of 6 months, guarantees (mainly performance bonds of PLN 33 118 thousand and bid bonds of PLN 25 462 thousand) were issued by banks and insurance companies to the Group's trading partners upon the Parent's instruction. In this category of liabilities, the largest item is a bid bond of EUR 3 million, issued in June 2016. Liabilities under sureties of PLN 1 394 668 thousand relate to the surety of RAFAKO S.A. issued on 16 April 2014 and on 24 February 2016 in respect of E003B7 Sp. z o.o.'s liabilities, valid until 17 April 2028, in connection with the project "Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of the supercritical 910 MW generating unit at the Jaworzno III Power Plant". Change in the sureties recorded in the first half of 2016 relates to signing an annex to the agreement of 16 April 2014 on issuance of bank and insurance guarantees to an SPV for the running project, under which mBank undertook to issue bank guarantee in the amount of PLN 348 668 thousand. The largest item among guarantees which expired in the period of first 6 months of 2016 was a performance bond of EUR 1 831 thousand.

Over the first 6 months of 2016, the Group recorded an increase in contingent receivables, being mainly performance bonds of PLN 65 170 thousand, including increase in receivables from received bank and insurance guarantees of PLN 72 579 thousand and increase in receivables under promissory notes of PLN 191 thousand. The largest item among guarantees received in the first 6 months was a guarantee for the return of advance payment of EUR 1,831 thousand. The largest item among guarantees which expired in the first 6 months of 2016 was the guarantee for the return of the advance payment of EUR 1,831 thousand.

23. Litigations and disputes

At the date of these interim condensed consolidated financial statements, the Parent is involved in litigations and disputes both as defendant and claimant.

In a material litigation, the Parent is seeking compensation from Donetskobłenergo of Ukraine following the customer's final decision to abandon the steam-generator construction project. On 6 August 2010, the Parent received a decision issued by the Judicial Chamber for business cases of the Supreme Court of Ukraine granting a cassation appeal lodged by RAFAKO S.A. on 2 March 2010 and upholding the ruling of the Donetsk Commercial Court of Appeals of 23 December 2008, whereby RAFAKO was awarded UAH 56.7m (approximately USD 11.5m) in compensation, default interest, court expenses and legal representation. As the recovery of the awarded receivable is uncertain, the Company did not recognize that amount as revenue. RAFAKO S.A.'s attorney reported that in July 2012 the Commercial Court for the Donetsk region resumed the examination of the case having received Donetskobłenergo's petition to declare the agreement of 16 May 1994 invalid. According to the attorney, there are no new arguments or evidence to grant the petition. Due to the current situation in Ukraine, no date for the next hearing has been set.

On 9 December 2014, RAFAKO S.A. received a claim for payment of EUR 644.5 thousand from ESPD Environmental Solutions and Project Development GmbH of Vienna (ESPD). The Company's liability is alleged to arise out of cooperation agreement signed between the parties, under which ESPD agreed to provide support for RAFAKO S.A.'s efforts to win contracts for flue gas denitrification (DeNOx) units. RAFAKO S.A.'s stance is that the fee claimed by ESPD is not due since no services have been provided. On 7 December 2015, the Court of Arbitration at the Polish Chamber of Commerce issued a verdict under which RAFAKO S.A. is required to pay the full amount of the ESPD's claim. The liability of the Parent to ESPD was paid, however, RAFAKO S.A. has continued to be in dispute on this matter. On 21 January 2016, the Parent filed for repealing this verdict with the Court of Appeals in Katowice; the matter will be heard in September 2016.

24. Receivables from related entities in company voluntary arrangement

At the reporting date, in the statement of financial position the Group recognised net receivables of PLN 35.8m from a related entity in company voluntary arrangement.

On 20 December 2011, RAFAKO S.A. and PBG S.A. of Wysogotowo ("higher level parent") concluded an agreement (the "Agreement"), under which RAFAKO S.A. acquired an interest in ENERGOMONTAŻ - POŁUDNIE Spółka Akcyjna ("EP") with its registered office at ul. Mickiewicza 15, Katowice. Under this Agreement, RAFAKO S.A. acquired 46,021,520 ordinary bearer shares in EP with a par value of PLN 1 per share and a total par value of PLN 46,021,520, representing 64.84% of the issued capital and 64.84% of total voting rights at the General Meeting of the company, carrying the right to 46,021,520 votes attached to the shares. Based on the Agreement, PBG S.A. sold the shares held for PLN 160 154 889.60 (i.e. PLN 3.48 per share). The purchase price was paid on 30 December 2011. Following an analysis and taking into account the likelihood of realization of RAFAKO S.A.'s additional payments and claims, the Parent's Management Board determined the purchase price at PLN 160 154 889.60, plus transaction costs of PLN 557 363.40.

As a result of the above-mentioned transactions, ENERGOMONTAŻ – POŁUDNIE S.A. became a subsidiary of the RAFAKO Group.

The acquisition of shares in ENERGOMONTAŻ – POŁUDNIE S.A. was disclosed in the Group's financial statements for the year ended 31 December 2011 under cost of an investment in a subsidiary. The carrying amount of the investment as at 31 December 2011 was PLN 160 712.3 thousand. In accordance with the Group's accounting policy, the shares in the subsidiary were recognized at historical cost (net of impairment, if any).

On 4 June 2012, PBG S.A. filed a petition for insolvency. On 13 June 2012, the court granted the petition and PBG S.A was declared to be insolvent in company voluntary arrangement.

On 16 July 2012, the Parent's Management Board received a letter from the Court Supervisor of PBG S.A. w upadłości układowej [in company voluntary arrangement] addressed to that company ("PBG") informing that the sale of 46,021,520 shares in ENERGOMONTAŻ – POŁUDNIE S.A. by PBG S.A. to RAFAKO S.A. on 20 December 2011, "as a legal transaction executed by the Bankrupt (PBG) for a consideration, within 6 months before the date of submitting the bankruptcy petition (i.e. 4 June 2012), with a related party in respect of which the Bankrupt (PBG) was a parent, is ineffective against its bankruptcy estate", in accordance with Article 128.2 of the Bankruptcy and Restructuring Law ("the Letter"). The Court Supervisor requested the Management Board of PBG S.A. to immediately take steps under Article 134 of the Bankruptcy and Restructuring Law to effect a return transfer of 46,021,520 shares in ENERGOMONTAŻ – POŁUDNIE S.A. to PBG's account.

On 7 August 2012, the Parent's Management Board entered into an agreement with PBG S.A. w upadłości układowej [in company voluntary arrangement] of Wysogotowo for the transfer of shares in ENERGOMONTAŻ – POŁUDNIE Spółka Akcyjna of Katowice. The agreement provided for the transfer of 46,021,520 ordinary bearer shares in the company, with a par value of PLN 1 per share, representing 64.84% of the share capital and 64.84% of total voting rights at the General Meeting of ENERGOMONTAŻ – POŁUDNIE S.A. carrying the right to 46,021,520 votes. The share transfer was registered in the brokerage account on 7 August 2012.

In accordance with the legal analyses available to the Parent's Management Board, as a result of PBG S.A.'s insolvency declared on 13 June 2012, the sale of shares in ENERGOMONTAŻ – POŁUDNIE S.A. by PBG S.A. to RAFAKO S.A. under the agreement signed on 20 December 2011 has become legally ineffective against the bankruptcy estate as of the date of the court's decision to declare PBG S.A. insolvent, i.e. as of 13 June 2012 (the date of loss of control). This means that the Parent is required to return the shares of ENERGOMONTAŻ – POŁUDNIE S.A. to PBG S.A. to include them in to the PBG S.A.'s bankruptcy estate, i.e. to procure that they are recorded in the PBG S.A.'s securities account. This requirement arose by operation of law upon the declaration of PBG S.A.'s insolvency. Considering the above, having analysed the legal opinions of ineffectiveness of the acquisition of ENERGOMONTAŻ – POŁUDNIE S.A. shares from PBG S.A. w upadłości układowej [in company voluntary arrangement], the Parent's Management Board resolved to submit to the procedure involving the return of the shares.

Given the ineffectiveness of PBG S.A.'s disposal of the shares in ENERGOMONTAŻ-POŁUDNIE S.A. to RAFAKO S.A., the Parent is entitled to claim a refund of the price paid for the shares. RAFAKO S.A.'s right to the refund of the price paid for the shares of ENERGOMONTAŻ-POŁUDNIE S.A. results in the recognition, in the consolidated statement of financial position, of a receivable which was initially recognised at fair value by reference to the present value of the expected inflows. Accordingly, the fair value of the receivable was estimated taking into account the expected cash flows to the Company, taking into consideration PBG S.A.'s arrangement proposals providing for a 31% reduction of the debt (for which no deferred tax asset was recognised) and the expected timing of the inflow of the first instalment of cash to the Company, assessed by the Management Board at 30 June 2016.

In the period of 12 months ended 31 December 2014, the Parent re-measured the asset based on updated arrangement proposals of 3 November 2014 put forward by PBG S.A. w upadłości układowej [in company voluntary arrangement], providing with respect to the first group of creditors (which includes RAFAKO S.A.'s claim) for repayment of PLN 500 thousand and an 80% reduction of the receivable in excess of PLN 500 thousand. The receivable will be repaid in semi-annual instalments over the period of 5 years beginning on 30 June 2016.

As at 30 June 2016, the value of the receivable determined based on the assumptions discussed above amounted to PLN 25.2m under "Other long-term financial assets" and PLN 4.9m under "Other short-term financial assets". The full amount of the claim i.e. PLN 160,154,889.60 has been included in the proof of the claim to the bankruptcy estate of PBG.S.A. and is on the list of claims acknowledged by the Court Supervisor (publication in *Monitor Sądowy i Gospodarczy* official gazette of 4 June 2013).

In addition, on 10 January 2012, RAFAKO S.A. entered into a loan agreement with Hydrobudowa Polska S.A. of Wysogotowo, under which RAFAKO S.A. granted Hydrobudowa Polska S.A. a cash loan of PLN 32m to Hydrobudowa Polska S.A. maturing in 12 months (i.e. on 9 January 2013) to finance the company's day-to-day operations. To secure the repayment of the loan, Hydrobudowa Polska S.A. issued a blank promissory note with a "protest waived" clause to RAFAKO S.A., guaranteed by PBG S.A. and Multaros Trading Company Ltd., together with relevant promissory note declarations. RAFAKO S.A. is entitled to fill in the note with the amount of any overdue balance of the loan with interest, up to PLN 35 000 000 (in words: thirty-five million zloty). This loan bears interest at an annual rate of 1M WIBOR plus margin per annum. By the date of these interim condensed consolidated financial statements, RAFAKO S.A. has not received any amounts from Hydrobudowa Polska S.A., either as repayment of the loan principal or interest.

On 4 June 2012, PBG S.A. and Hydrobudowa Polska S.A. filed petitions with the District Court Poznań – Stare Miasto of Poznań, 11th Commercial Insolvency and Arrangement Division, for declaring PBG S.A. and Hydrobudowa Polska S.A. insolvent in voluntary arrangement. On 13 June 2012, the District Court for Poznań – Stare Miasto of Poznań, 11th Commercial Insolvency and Arrangement Division, declared PBG S.A. insolvent in voluntary arrangement. On 11 June 2012, the District Court for Poznań – Stare Miasto of Poznań, 11th Commercial Insolvency and Arrangement Division declared the bankruptcy of Hydrobudowa Polska S.A. by liquidation of its assets. Pursuant to Article 124.2 of the Bankruptcy and Restructuring Law, following the declaration of bankruptcy of Hydrobudowa Polska S.A., RAFAKO S.A. is entitled to seek the return of the actually advanced loan, in accordance with the Bankruptcy and Restructuring Law. On 26 October 2012, the Parent's Management Board filed a proof of the claim in respect of the loan in the bankruptcy proceedings against Hydrobudowa Polska S.A. The loan is included in the list of claims acknowledged by the Official Receiver.

Taking into consideration the process of bankruptcy liquidation of Hydrobudowa Polska S.A., in order to seek the return of the loan amount, on 21 September 2012 the Management Board of the Parent filed the claim with the register of claims maintained as part of the PBG S.A. bankruptcy arrangement proceedings. In the period of 6 months ended 30 June 2016, taking into consideration current arrangement proposals (dated 3 November 2014), the fair value of the receivable was estimated taking into account the expected cash inflows to RAFAKO S.A., assuming the repayment of PLN 500 thousand per one creditor and the 80% reduction of the receivable in excess of PLN 500 thousand (for which no deferred tax asset was recognized) as well as the expected timing of the first inflow of cash to RAFAKO S.A., assessed by the Company's Management Board as at 30 June 2016 (arrangement proposals provide for the repayment of the debt on a semi-annual basis over the period of 5 years).

As at 30 June 2016, the value of the receivable determined based on the assumptions discussed above amounted to PLN 5.1m under "Other long-term financial assets" and PLN 1m under "Other short-term financial assets". The full amount of the claim i.e. PLN 32 915 787.40 has been included in the proof of the claim to the bankruptcy estate of PBG.S.A. and is on the list of claims acknowledged by the Court Supervisor (publication in *Monitor Sądowy i Gospodarczy* official gazette of 4 June 2013).

The total amount of receivables from the related entity (PBG S.A. w upadłości układowej (in company voluntary arrangement)), which results from the above-mentioned titles and is recognized in the statement of financial position is PLN 35.8m. In the 6-month period ended 30 June 2016, the measurement of the receivables contributed PLN 456 thousand (as at 31 December 2015 – PLN 2,502 thousand) to the Group's net profit/ (loss).

In accordance with the information received from the Parent, on 13 June 2016 the court dismissed the appeal against the Decision of the Bankruptcy Court of 8 October 2015 in the matter of validation of PBG S.A.'s voluntary arrangement and, accordingly, the court's decision on voluntary arrangement became legally valid. In addition, on 29 July 2016 PBG S.A. received a court decision of 20 July 2016 concerning termination of bankruptcy proceedings.

Since the Decision of the Bankruptcy Court of 8 October 2015 on PBG S.A.'s voluntary arrangement became legally valid on 13 June 2016, the Parent utilized the impairment write-down against said receivable in the total amount of PLN 156.9m.

Under PBG S.A.'s voluntary arrangement, the deadline for the payment of the first instalment of cash to the Parent was set at 30 June 2016. However, following the agreement of RAFAKO S.A. and PBG S.A. of 29 July 2016, this deadline was moved to 15 September 2016.

Given the PBG S.A.'s voluntary arrangement validation, the Parent's Management Board stance is that at the date of these interim condensed consolidated financial statements the probability of receivables' recovery has increased although it still depends on the fulfilment of voluntary arrangement by PBG S.A. in the future.

(in PLN thousand)

25. Related party transactions

In the period of 6 months ended 30 June 2016 and in the corresponding period of 2015, the Parent and its subsidiaries did not enter into any material transactions with related parties on other than the arm's length basis.

Aggregate amounts of related-party transactions in the financial periods showed:

Related party	*6-month period ended 30 June*	*Sale to related parties*	*Purchase from related parties*	*Receivables from related parties*	*Liabilities to related parties*
Parent company:					
PBG S.A. w upadłości układowej*[in company voluntary arrangement]	*2016*	1 090	1 719	36 554	458
	2015	–	6	35 314	1
The PBG S.A. Group companies:					
PBG oil and gas Sp. z o.o.	*2016*	4 648	30 974	3 416	13 853
	2015	301	1 954	367	3 905
PBG Avatia Sp. z o.o. w upadłości układowej [in company voluntary arrangement]	*2016*	–	–	–	–
	2015	–	2	–	–
PBG ERIGO Sp. z o.o.	*2016*	8	–	9	–
PBG ERIGO Projekt Sp. z o.o.	*2016*	38	–	8	–

** The receivables from PBG S.A. w upadłości układowej [in company voluntary arrangement] described in Note 24.*

Related party	*6-month period ended 30 June*	*Sale to related parties*	*Purchase from related parties*	*Receivables from related parties*	*Liabilities to related parties*
Entities related through personal links:					
SWGK KSIĘGOWOŚĆ Sp. z o. o	*2016*	–	969	–	209
	2015	–	890	–	–
PBG Foundation	*2016*	–	142	–	4
	2015	–	72	–	–
Mostostal Energomontaż Gliwice S.A.	*2016*	–	–	–	102
	2015	–	15	–	387
Dwór w Smólsku	*2016*	–	100	–	25
SWGK Consulting Sp. z o.o.	*2016*	–	104	–	24
Corporate Finance & IT Sp. z o.o.	*2016*	121	–	52	–
BPIL Grzegorz Kiczor	*2016*	–	75	–	18

26. Management Board and Supervisory Board of the Parent

In the 6-month period ended 30 June 2016, there were no changes in the composition of the Parent's Management Board.

As at the date of these interim condensed consolidated financial statements, the composition of the Parent's Management Board was as follows:

Agnieszka Wasilewska-Semail	- President of the Management Board
Krzysztof Burek	- Vice-president of the Management Board
Jarosław Dusiło	- Vice-president of the Management Board
Edward Kasprzak	- Vice-president of the Management Board
Tomasz Tomczak	- Vice-president of the Management Board

In the 6-month period ended 30 June 2016, there were no changes in the composition of the Parent's Supervisory Board.

As at the date of these interim condensed consolidated financial statements, the composition of the Parent's Supervisory Board was as follows:

Jerzy Wiśniewski	- Chairman of the Supervisory Board
Dariusz Sarnowski	- Deputy Chairman of the Supervisory Board
Krzysztof Gerula	- Member of the Supervisory Board (independent)
Przemysław Schmidt	- Member of the Supervisory Board (independent)
Dariusz Szymański	- Member of the Supervisory Board
Adam Szyszka	- Member of the Supervisory Board (independent)
Małgorzata Wiśniewska	- Member of the Supervisory Board

27. Transactions with Members of the Management and Supervisory Board

In the reporting and comparable periods, Group companies did not enter into any transactions with Members of their management boards.

(in PLN thousand)

28. Emoluments of members of the Management and Supervisory Board of the Parent and Group companies

Remuneration paid to the members of the Management and Supervisory Boards of Group companies in the 6-month period ended 30 June 2016 was as follows:

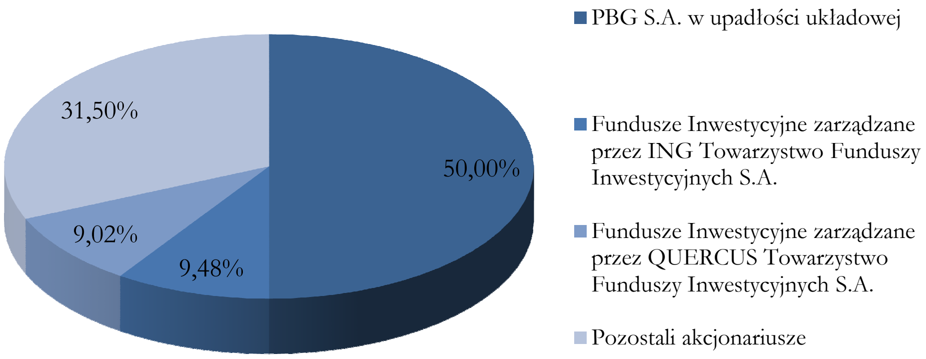
	Base pay	*Awards*	*Other*
RAFAKO S.A. – the Parent			
Management Board	1 560	1 248	145
Supervisory Board	504	–	672
PGL-DOM Sp. z o.o. – a subsidiary			
Management Board	54	30	–
Supervisory Board	84	–	–
RAFAKO ENGINEERING Sp. z o.o.– a subsidiary			
Management Board	263	–	–
Supervisory Board	61	–	–
ENERGOTECHNIKA ENGINEERING Sp. z o.o. – an indirect subsidiary			
Management Board	249	–	–
Supervisory Board	25	–	–
E001RK Sp. z o.o. – a subsidiary			
Management Board	30	–	–
Supervisory Board	–	–	–
E003B7 Sp. z o.o. – a subsidiary			
Management Board	803	890	–
Supervisory Board	552	540	–

29. Shareholders holding 5% or more of the total vote at the General Meeting of RAFAKO S.A. (the Parent)

Shareholder	*Number of shares (pcs)*	*Number of votes attached to the shares held*	*Ownership interest*	*% of total vote at GM*
PBG S.A. w upadłości układowej[*] [in company voluntary arrangement]' **of which:**	42 466 000	42 466 000	50% + 1 share	50% + 1 share
Held directly	7 665 999	7 665 999	9.026%	9.026%
Held indirectly through Multaros Trading Company Limited[**] (subsidiary of PBG S.A. (w upadłości układowej (in company voluntary arrangement)):	34 800 001	34 800 001	40.974%	40.974%
Pension Funds of Nationale-Nederlanden managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.**	8 048 507	8 048 507	9.480%	9.480%
Investment Funds managed by QUERCUS Towarzystwo Funduszy Inwestycyjnych S.A.*, of which:**	7 662 062	7 662 062	9.020%	9.020%
QUERCUS PARASOLOWY SFIO	5 791 025	5 791 025	6.820%	6.820%

*– based on a notification of 9 September 2015
** – based on a notification of 30 July 2015
*** - based on a notification of 10 September 2015

Shareholding structure as at 30 June 2016



30. Statement of changes in holdings of RAFAKO S.A. shares or RAFAKO S.A. share options by management and supervisory staff of the consolidated Group companies of which RAFAKO S.A. became aware after the issue of the previous financial statements

To the best of RAFAKO S.A.'s knowledge, as at the date of these interim condensed consolidated financial statements the holdings of RAFAKO S.A. shares by the management and supervisory staff of consolidated Group companies are as follows:

	Company name	*As at 16.05.2016*	*Increase*	*Decrease*	*As at 31.08.2016*
Management Board					
Edward Kasprzak –Vice-president	RAFAKO S.A.	2 000	–	–	2 000
Supervisory Board	–	–	–	–	–

31. Events after the reporting date

After the reporting date, no events took place which could have impact on the financial result of the RAFAKO Group.

On 11 July 2016, the Supervisory Board of the Parent, acting based on the authorization provided in the Company's Articles of Association, appointed Ernst & Young Audyt Polska Sp. z o.o. sp.k. with its registered office in Warsaw, entered in the list of certified auditors of the National Chamber of Certified Auditors under No. 130, as the entity authorized to audit the financial statements of the Company. Auditor selection was made in accordance with binding laws and professional standards. The contract with the selected auditor will be signed for a review and audit of the 2016 financial statements of RAFAKO S.A. and the 2016 consolidated financial statements of the RAFAKO Group.

On 13 July 2016, the Parent was notified about selecting by UAB Verslo Aptarnavimo Centras, a company conducting public procurement procedure based on the authorization of UAB Vilniaus Kogeneracinë Jëgainë as the Contracting Authority, of the Parent's offer filed in the public procurement procedure for the award of the contract „Construction of a biomass-powered cogeneration unit composed of the CFB boilers (Circulating Fluidized Bed boilers) and biomass storage and administration system", realised as part of the construction of a new cogeneration (heat and power) plant in Vilnius (Lithuania). The proposal value is EUR 149 650 000 (VAT exclusive). Contract may be signed not earlier than after 15-days (of standstill period) from the date of publication of public tender results, while project works may commence within maximum 9 months of contract signing, with the proviso that contract signing depends, among others, on the Contracting Authority's securing project financing.

On 13 July 2016, E003B7 Sp. z o.o. i.e. 100% subsidiary of RAFAKO S.A., and POLIMEX Energetyka Sp. z o.o. with its registered office in Warsaw, concluded an agreement for the assembly of boiler pressure parts, performance of boiler operational tests and participation in boiler start-up in connection with the project "Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of a supercritical 910 MW generating unit at the Jaworzno III Power Plant" to be executed by Rafako and an SPV *(special purpose vehicle).* According to cost analysis, the full-scope contract value is PLN 118 750 000 (VAT exclusive), and the deadline for contract execution is April 2018. The parties agreed that the limit of contractual penalties for subcontractor default is 15% of net contract value. Contract termination for the reasons caused by the other party entails a penalty of 10% of net contract value. Contract penalty payment does not exclude the possibility of seeking compensations in excess of said values, with the maximum liability for contract non-performance or undue performance not higher than 100%.

On 14 July 2016, RAFAKO S.A. and POLIMEX Energetyka Sp. z o.o. with its registered office in Warsaw (PE) signed a letter of intent to commence cooperation in the following scope: (i) joint participation in a possible public procurement procedure for the development of generation capacities at Elektrownia Ostrołęka and (ii) performance of work under a contract, which will be concluded if the consortium of POLIMEX Energetyka Sp. z o.o. and RAFAKO S.A. is awarded, in public procurement procedure, a contract for the Project on the terms and conditions determined in such contract. The Parties assume participation in the project in the consortium formula. In the consortium agreement, the Parties will determine detailed scope of proposal preparation and the scope of work of each Party; in addition, the principles of use by each Party of its potential will be determined as well as policies for providing credentials etc. If the Parties sign the consortium agreement, PE will act as the consortium leader, and at the stage of Project execution, it will be the contractor responsible for assembly-construction works. RAFAKO S.A. will be the consortium member, and at the stage of Project execution, it will also be the contractor in charge of technological works (with no turbine island), with detailed scope of work to be determined in the contract.

On 2 August 2016, RAFAKO S.A. received a debit note of PLN 13 491 000 from ENERGA Elektrownia Ostrołęka SA issued in connection with the contract for NOx reduction system at boilers OP_650 No. 1, 2 and 3 at Elektrownia Ostrołęka B dated 10 October 2014, realized in consortium with OMIS SA. In its debit note justification, ENERGA Elektrownia Ostrołęka stated that the reason for debit note issuance is a delayed performance of contract works. The stance of the Parent's Management Board is that there are no grounds to charge contractual penalties, thus rejecting the whole line of argumentation presented in debit note justification.

On 3 August 2016, RAFAKO S.A. was notified by ENEA Wytwarzanie Sp. z o.o. in Swierże Górne about selecting, as the most favourable, of the RAFAKO S.A.'s proposal filed in an open-end public procurement procedure for the award of the contract „Delivery and assembly of a Catalytic De-nitriding System or the SCR (selective catalytic removal) system for AP-1650 boilers No. 9 and 10 and modernization of electro-filters at ENEA Wytwarzanie sp. z o.o". The proposal value is approx. PLN 289.2m (VAT exclusive) (i.e. approx. PLN 355.7m, VAT inclusive). Contract may be signed after a 10-day standstill period [envisaged by Polish law for possible appeals against contract award decision - *termin na wniesienie odwołania)* at the earliest.

(in PLN thousand)

These interim condensed consolidated financial statements were authorised for issue on 31 August 2016 based on the Resolution of the Management Board of RAFAKO S.A. dated 31 August 2016.

Signatures:

31 August 2016	Agnieszka Wasilewska-Semail	President of the Management Board	....
31 August 2016	Krzysztof Burek	Vice-president of the Management Board	....
31 August 2016	Jarosław Dusiło	Vice-president of the Management Board	....
31 August 2016	Edward Kasprzak	Vice-president of the Management Board	....
31 August 2016	Tomasz Tomczak	Vice-president of the Management Board	....
31 August 2016	Jolanta Markowicz	Chief Accountant	....